

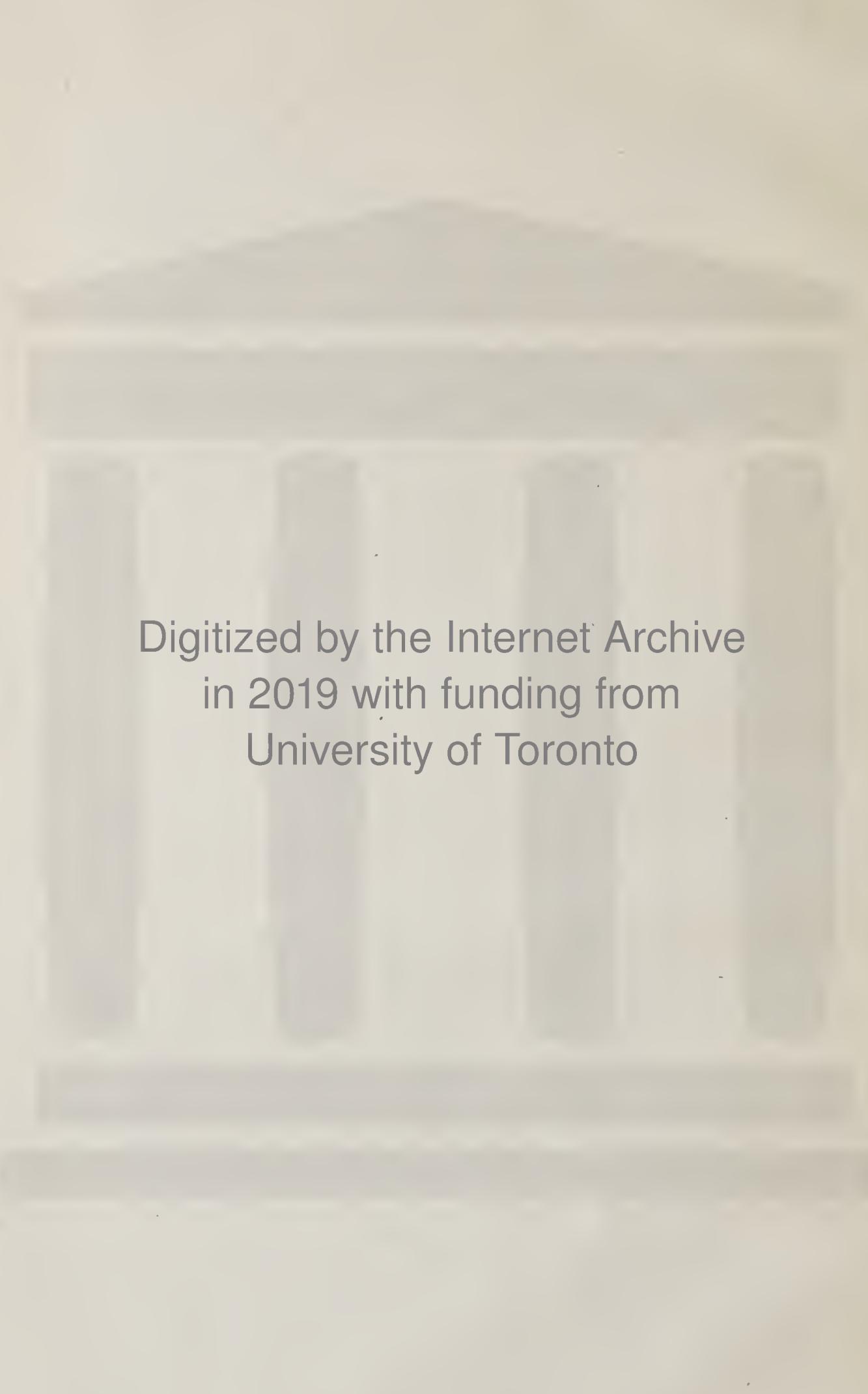
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Canada. Finance, Sept. 9.
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DOMINION-PROVINCIAL CONFERENCE

Correspondence
Since the Budget of 1946

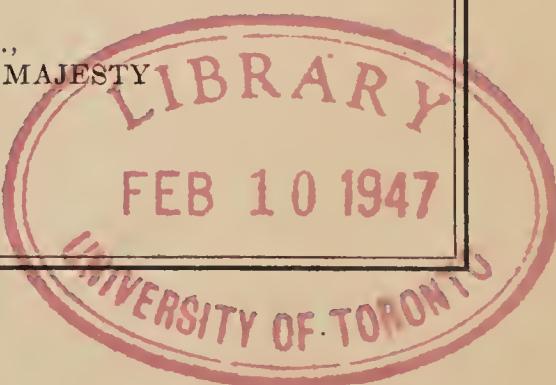
on

Matters of Substance Regarding
Tax Agreements with the Provinces



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OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1947



PREFATORY NOTE

CORRESPONDENCE SINCE THE BUDGET OF 1946 ON MATTERS OF SUBSTANCE REGARDING TAX AGREEMENTS WITH THE PROVINCES

The day the budget was presented (June 27) the Minister of Finance addressed identical letters to the Premiers of all the Provinces transmitting the text of the Dominion proposals for individual tax agreements. Since they are identical, only one copy of the letters sent by the Minister of Finance to the Premiers is included with the letters tabled. Mere acknowledgments, letters relating to dates of appointment or details of individual agreements and letters transmitting to one provincial government copies of letters to another provincial government have not been reproduced.

For example, copies of the letters from the Minister of Finance to the Premier of Manitoba on December 18 and 19 were sent to the Premier of New Brunswick.

Also, copies of the letter sent by the Minister of Finance to the Premier of Manitoba on December 19 were sent to the Premiers of British Columbia and Saskatchewan.

The letter sent from the Minister of Finance to the Premier of Manitoba on December 18 regarding Maritime adjustments is identical with a letter sent to the Provincial Treasurer of Saskatchewan on the same date. This letter is consequently not included.

A letter identical with that sent by the Minister of Finance to the Premier of Ontario on January 21 was also sent to the Premier of Quebec.

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DOMINION-PROVINCIAL RELATIONS

Correspondence Since the Budget of 1946

on

Matters of Substance Regarding Tax Agreements with the Provinces

OFFICE OF THE MINISTER OF FINANCE
CANADA

OTTAWA, June 27, 1946.

The Honourable GEORGE A. DREW, M.L.A.,
Premier of Ontario,
Toronto, Ontario.

Dear Mr. DREW:

I sent you a telegram to-day reading as follows:

"In my budget speech to-day I am making an offer on behalf of the Government of Canada to each Province to enter into a new tax agreement on the expiration of the present Wartime Tax Agreement (stop) I am sending a copy of my budget speech to you to-night containing the new proposals and when you have had time for consideration I should be glad to know if they are acceptable to you in principle."

I now enclose a copy of the budget speech setting out the Dominion's new proposals. When you have had an opportunity of considering them I should be glad if you would let me know if the Government of your Province accepts the proposals in principle and wishes to enter into negotiations with the Government of Canada with a view to concluding an agreement along the lines set out in the budget speech.

I shall, of course, be glad to let you have such additional information as is within my power and to see you at a mutually convenient time in order to discuss the proposed new arrangement in detail.

Yours very truly,

J. L. ILSLEY.

ONTARIO

OFFICE OF THE PRIME MINISTER AND PRESIDENT OF THE
COUNCILTORONTO, Ontario,
September 7, 1946.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
House of Commons,
Ottawa, Ontario.

Dear Mr. PRIME MINISTER:

The Conference of the ten governments of Canada, which met in Ottawa on August 6 last year at your invitation, is still awaiting word from you as Chairman as to the date of the next meeting of that Conference. In view of a number of public statements which have appeared it does seem advisable to recall that the fourth meeting of those attending the Dominion-Provincial Conference was adjourned on May 3 upon the motion of the Dominion Minister of Finance with the explanation that the Dominion Government required further time to examine the proposals then before the Conference.

I am not overlooking the fact that in your absence last week the Acting Prime Minister, Mr. St. Laurent, and on an earlier occasion Mr. Ilsley in his budget speech, conveyed the impression that the Conference had come to an end and that any further meetings would depend upon action by the Provincial Governments following their acceptance of the suggested tax arrangements which were placed before the House of Commons but never at any time submitted to the Conference. However, I do recall that on more than one occasion you emphasized your own belief that the proceedings and course of the Conference rested with the Conference as a whole, and that it was not within the authority of the Dominion Government alone to say at any time what course the Conference would follow or what its fate might be. The Ontario Government is in entire accord with this position and we accept it as the only basis upon which this or any similar conference could ever hope to reach a successful conclusion.

On behalf of the Government of Ontario I am therefore asking you to reconvene the adjourned Conference at the earliest possible date. I would point out that in addition to those already advanced, there are new and compelling reasons why the representatives of all governments should be called together again without further delay. One very important reason arises from the fact that the House of Commons has decided that the Emergency Transitional Powers Act will come to an end on March 31 next. A number of joint activities are now being carried on by the Dominion and Provincial Governments under agreements made in conformity with Orders-in-Council passed under that emergency act. It is imperative that all governments know what arrangements are to take place of those which will automatically terminate on March 31st next.

To indicate the importance of the subjects requiring urgent consideration, may I mention that I have just been informed of the request of the Dominion Government for the assistance of the Ontario Department of Public Welfare in curing administrative weaknesses in the present handling of Family Allowances.

Then there is the very important fact that the whole field of labour relations is now subject to the overriding emergency powers of the Dominion Government. As I pointed out to the Conference last December, it is of the utmost importance that the National Labour Code, and the Dominion-Provincial administrative structure set up to administer it, should not be allowed to fall apart with the

termination of the emergency powers of the Dominion Government, without a clear understanding by every government as to what will take their place. These are only a few of the considerations which demonstrate the urgent need for an early resumption of the Dominion-Provincial Conference.

I am sure it will be quite useless to arrange for separate discussions of isolated subjects unless and until we have first established a workable, overall plan for effective co-operation between governments which will provide a simple mechanism for handling those matters of common concern which are constantly demanding joint action. A temporary adjustment of taxing powers will be meaningless unless each government knows what its duties are to be, and it will be equally meaningless to create new obligations by agreement unless the financial capacity to carry out those obligations is assured.

For these and other reasons which have been advanced on earlier occasions, I strongly urge that you fix an early date for the Conference to meet again. The Ontario Government will be ready to send its representatives to Ottawa at any time. Will you please let me know at your early convenience when we may expect to meet.

Yours sincerely,

GEORGE A. DREW.

OFFICE OF THE PRIME MINISTER

CANADA

OTTAWA, September 27, 1946.

The Honourable GEORGE A. DREW, M.L.A.,
Premier of Ontario,
Toronto, Ontario.

My Dear PREMIER:

I duly received your letter of the 7th instant regarding the resumption of meetings of the Dominion-Provincial Conference. I have delayed sending a reply pending full and careful consideration by the Cabinet of the important questions involved. The representations of your communication have now received very full consideration by my colleagues and myself.

You will recall that when the Conference adjourned on May 3, after nine months of consideration of proposals made by the Dominion Government and considerably modified in the light of Provincial representations, it was apparent that no general agreement could then be reached.

You will also, doubtless, recall that on the closing day of the Conference you said: "The Government of Ontario has gone the very limit in making agreement possible, and when I say that it has gone the very limit, I mean that it is prepared to make adjustments in detail, but not adjustments in principle or adjustments in regard to the net overriding amount which it receives."

It was calculated by the Minister of Finance that the proposals of the Ontario Government to which this statement referred, would impose heavier additional financial burdens on the Dominion Treasury than the Dominion Government was prepared to assume. Accordingly, unless the views of the Government of Ontario as to what would constitute an acceptable agreement have since altered, there would seem to be little prospect of success in continuing the Conference from the point where it was adjourned in May. Since that time no new proposals have been made, with the exception of those contained in the Dominion Budget address of June 27.

The modified proposals for new tax agreements outlined by the Minister of Finance in his budget address were brought forward because it was considered, necessary to avoid further delay in making it possible for Provinces desiring to do so to conclude new taxation arrangements. The present wartime tax arrangements with two Provinces expire at the end of October and November respectively.

At the time of outlining the modified proposals in his budget address, the Minister of Finance indicated the readiness of the Dominion Government to commence discussions at once with any Provincial Government desiring to do so. Certain provinces immediately accepted the Budget proposals in principle. With those provinces the Dominion Government has been working out tax agreements which, it is anticipated, may be completed at an early date. Informal clarifying discussions have also been held with certain other provinces. This procedure having been adopted, and negotiations entered into in good faith with a number of the provinces, it is the view of the Dominion Government that priority should be given to these discussions.

Once satisfactory financial relationships have been agreed upon, the Dominion Government will be prepared to resume, in a general conference, the working out of mutually satisfactory arrangements relating to public investment and social welfare.

The important matter of labour relations, which is referred to in your letter, is to be the subject of a Dominion-Provincial Conference of Ministers of Labour opening on October 7. A general Dominion-Provincial agreement is not, in our view, an essential preliminary condition of effective co-operation between the Dominion and the Provinces in fields, such as labour relations, where large financial commitments are not involved.

In your letter you also speak of the request of the Dominion Government "for the assistance of the Ontario Department of Public Welfare in curing administrative weaknesses in the present handling of Family allowances." There was, in fact, in the request of the Dominion Government no suggestion of weaknesses in the administrative machinery, but rather a desire to secure the co-operation of the Government of Ontario in the most effective administration of Family Allowances. This the Dominion Government would be pleased to discuss with the Ontario Government should it be willing to co-operate in this matter.

May I assure you in conclusion that the Dominion Government is prepared, at all times, to give consideration to specific proposals on any aspect of Dominion-Provincial relations which one or more of the Provinces may wish to have considered.

Yours sincerely,

W. L. MACKENZIE KING.

ONTARIO

OFFICE OF THE PRIME MINISTER AND PRESIDENT
OF THE COUNCIL

TORONTO 2,

October 2, 1946.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
House of Commons,
Ottawa, Ontario.

Dear Mr. PRIME MINISTER:

I have your letter of September 27, which I can only read as a refusal of my request that you reconvene the Dominion-Provincial Conference. If that is your decision, its consequences are of such far-reaching importance that I do not think I should accept it as final without another effort to impress upon you, as Chairman of the Conference, the duty which still rests upon you in that capacity without regard to your opinions as Prime Minister about the likelihood of success or failure of the Conference.

That, I think, is the most important aspect of the present situation. You were extremely careful from the outset to point out to the Conference that you occupied a dual role through the fact that you had been chosen as Chairman of the Conference and also at the same time sat there as the head of the Dominion Government. You assured us that you would at all times draw a clear distinction between your responsibilities as Chairman of the Conference and your position as Prime Minister. You were equally definite about the right of the Conference as a whole to determine its own fate, and on many occasions you made it clear that it was not your right to determine the course of the Conference.

When we met for the first time on the morning of August 6 last year, you said this: "Of course it has been understood that the entire procedure of the Conference is a matter for arrangement among ourselves." That afternoon you again emphasized the same point in these words: "May I again make it abundantly clear that with respect to the agenda and proceedings the Conference is master of itself." You were equally emphatic on more than one occasion during the closed sessions when we met in November and January. Then when we were in open session on May 1 you said this: "Well, Mr. Duplessis, and gentlemen, the Conference is the master of its own destiny, and all the premiers here present are equal."

On May 2 after again drawing a distinction between your position as the representative of the Dominion government and your position as an impartial Chairman of the Conference, you offered this explanation on behalf of the Dominion Government: "Our position has been throughout that we wished to act in accordance with the wishes of the provincial premiers." Later you made a further statement which has the most direct bearing upon the requests which have been directed to you as Chairman of the Conference by several of the premiers that it be brought together again at an early date. I would like to emphasize particularly the effect of these words: "I do not see any other way of deciding what is advisable in this regard than for us, as the Dominion Government, and one party to the Conference, to act in accordance with the wishes of the premiers, and we are prepared to do that."

In view of this unqualified undertaking that the Conference as a whole would be permitted to decide what is advisable, and that you would be prepared to abide by its decisions, I believe that it is your duty to fix a date as soon as possible.

I do not propose to discuss the reasons you put forward for thinking that the Conference is unlikely to succeed, and presumably the reasons why you have undertaken separate negotiations with some of the provinces. Those suggested reasons were discussed at the Conference, and therefore present no new considerations which were not before the Conference at the time it adjourned with the intention of meeting again.

There is no ground whatever for a suggestion that Ontario has demonstrated any unwillingness to adjust its position in the light of discussions at the Conference. We made the most sweeping concessions when we agreed in January to vacate the whole field of personal and corporation income tax for the term of a temporary agreement. We indicated our willingness to make other adjustments.

The words you have quoted were very carefully explained at the Conference and are open to no such interpretation as you now seem to put upon them. When I said that we were not prepared to enter into any agreement under which our combined sources of revenue would be less than a certain minimum, I made it clear that the minimum to which I was referring was that amount which would be absolutely necessary for us to carry out our responsibilities to the people of Ontario. No government with any sense of responsibility could take any other position. You will recall that this very point was raised about half an hour before we adjourned and I then addressed these words to you: "I just want to make one thing perfectly clear, Mr. Chairman; since Hansard has been quoted we might as well make the record complete. In view of the fact that a certain section of the brief has been taken as indicating the sine qua non of the Ontario proposals, I want to remind the Conference that I have made it quite clear all along that nothing we have put forward is 'take it or leave it'."

When Mr. Ilsley moved that the Conference adjourn to a date fixed later, neither you nor anyone else suggested that the Conference was coming to an end and that the motion to adjourn was not, in fact, what it purported to be. I think I should recall exactly what did take place. Mr. Ilsley explained that it would be necessary for him to have time to consider the various proposals which had been put forward. He then said: "It is quite obvious that to arrive at an agreement will be impossible this afternoon." He further went on to say: "It is evident to us that it would be undesirable to indicate any particular date to which this Conference should be adjourned." Then he moved that the Conference adjourn sine die.

You will remember that just before you put this motion, the Premier of Nova Scotia said to you: "Mr. Chairman, I take it that Mr. Ilsley is not suggesting that there will not be another Conference." You said nothing to indicate that this was not the correct assumption when you put the motion to the Conference immediately afterwards. That being so, we all had the right to assume that this was in fact a motion to adjourn to a date which you would fix later on.

Not only the well established practices relating to such matters but also the arguments in support of the motion to adjourn, together with your own very positive undertakings, entitle every premier to expect that you will fix a date for the Conference to meet. Several of the premiers have publicly indicated their desire that it meet without further delay. The statement in your letter that the Dominion Government is prepared at all times to consider specific proposals on any aspect of Dominion-Provincial relations has no bearing whatever on our right as parties to the Conference to present our views to the whole Conference.

If since May 3 your government has come to the conclusion that another course than that contemplated at the time we adjourned, should now be adopted, then, as Chairman of the Conference, it is your duty to bring the Conference together so that the new proposals of the Dominion Government may be

reviewed and all governments may have an opportunity to express their opinions in regard to the views put forward. It may well be that arguments put forward on behalf of other governments would convince the Dominion Government that its present opinions should be changed. In any event only the whole Conference meeting as a conference has the right to decide that it should terminate its proceedings.

I have not elaborated my views in so much detail, merely for the empty satisfaction of establishing what I believe to be our unquestionable right to a further meeting of the Conference. I have done so because I am firmly convinced that there is good reason for confidence that we can reach satisfactory agreement now that sufficient time has elapsed for all governments to examine the various proposals and obtain information which was not before them when the Conference adjourned.

I meant exactly what I said at the Conference. No Ontario proposal has been put forward in any take-it-or-leave-it spirit. We are prepared to co-operate to the very limit in reaching satisfactory agreements which will be in the best interests of all the people of Canada. That has been our position from the beginning. We will be ready to send our representatives to Ottawa at any time. The door is still wide open. Meeting in a spirit of good will and with more complete information than has yet been available, there is no reason why we cannot lay the foundation for those advances in social services and economic security which are the desire of all our people, and which can be achieved in no other way. In all earnestness I urge you to reconsider the position you have taken in your letter of September 27 and fix an early date for the Conference to meet again in Ottawa.

Yours sincerely,

GEORGE A. DREW.

OFFICE OF THE PRIME MINISTER

CANADA

OTTAWA, October 10, 1946.

The Honourable GEORGE DREW, M.L.A.,
Premier of Ontario,
Toronto, Ontario.

My dear Premier:

I have your letter of October 2 in which you express the opinion that it is my duty as Chairman of the Dominion-Provincial Conference which first met on August 6, 1945, and then adjourned *sine die* on May 3 last, to fix an early date for the Conference to meet again in Ottawa. You stress the distinction which you think I should make between my responsibilities as Prime Minister of Canada and those which devolve upon me as Chairman of the Conference. In answer to my statement that the Dominion Government is prepared at all times to consider specific proposals on any aspect of Dominion-Provincial relations, you do not express a willingness to discuss any such proposals with the Ministers and officials of the Departments of the Dominion Government immediately concerned, but claim that it is your right to present your views to the whole Conference.

As Chairman of the Conference, I have discussed the representation of your letters with my colleagues in the Dominion Government. I have also directed the Secretary of the Conference to forward copies of the correspondence with yourself to the Premiers of the other Provinces.

As Prime Minister of Canada, it is necessary for me to point out that your conception of the purpose and role of the Conference appears to differ substantially from that of the Dominion Government.

In view of the frequent references made in your letter to statements of mine to the effect that the Conference agenda and procedure were matters for arrangement by the Conference as a whole, may I make quite clear the Dominion Government's conception of the place and function of the Conference.

As you have pointed out, I have consistently maintained that the Conference should be master of its own proceedings and agenda. That, however, does not imply that the Conference has power to make decisions which are binding on the Dominion Government or on any Provincial Government. Such a claim would be a denial of the autonomy of all the governments concerned, and of the exclusive constitutional responsibility of each government to its own legislative body for its financial policies.

It is not and never has been our view that the Dominion-Provincial Conference is a body competent to make decisions on matters of policy binding on the Dominion Government or on any Provincial Government. It is and always has been our view that the purpose and scope of the Conference were to study Dominion-Provincial relations and endeavour to find lines along which the Dominion Government and each Provincial Government as a separate autonomous entity could enter into agreements mutually satisfactory to the two parties to each separate agreement.

We had hoped that during the months of its proceedings it would be possible for the Conference to find lines which would be substantially the same for nine separate agreements to be entered into with each of the nine Provinces. The Conference did not adjourn until it was apparent that a general agreement in principle was not possible in time to make new agreements with the nine Provinces before the present wartime tax agreements expired. When it became apparent that no such general agreement could be reached—and this had become so apparent to the Premier of one of the Provinces that he had already left the Conference—the Conference itself adjourned *sine die* on May 3.

In these circumstances it became necessary for the Minister of Finance to prepare a budget which, on the expiry of the existing tax agreements, would operate equitably both in the Provinces with which new agreements were reached and in those Provinces which preferred not to enter into new agreements. This was the only constructive avenue left open to the Dominion Government. A budget on these lines was prepared and presented to Parliament on June 27. The budget proposals were immediately brought to the attention of the nine Provincial Governments. Parliament subsequently enacted the legislation necessary to make the provisions of the budget operative.

The position of the Dominion Government thus made clear and given the force of law by Parliament, is not a position that can be changed by any decision of the Conference. The most a Conference could do, in that regard, would be to bring about, among the participating governments, a willingness to recommend to the legislative bodies to which they are separately responsible the enactment of legislation providing for something different.

Since the Dominion Government announced its budget proposals, certain Provinces have entered into negotiations for new tax agreements, and these negotiations are currently proceeding.

The proposals made in the Budget Address are the only concrete proposals made by any of the participating governments since the Dominion-Provincial Conference adjourned in May. In the view of the Dominion Government, it is not unreasonable to expect the Provincial Governments to indicate their attitude towards those proposals before further consideration is given to the resumption of the sessions of the Conference.

In your letter of the 2nd of October, you state that neither the Ontario brief submitted in January, nor the views you expressed at the Conference, were your final words on the subject. The Dominion Government would welcome a definite statement of the position of the Ontario Government with respect to the concrete proposals for a transitional tax agreement made in the budget adopted by Parliament at its last session.

Let me say, in conclusion, that I must take exception to the opening sentence of your letter, in which you say that you can only read my letter of September 27 as a refusal of your request that I reconvene the Dominion-Provincial Conference. On the contrary, the position taken, in the words of the letter itself, is:

"Once satisfactory financial relationships have been agreed upon, the Dominion Government will be prepared to resume, in a general conference, the working out of mutually satisfactory arrangements relating to public investment and social welfare."

Yours sincerely,

W. L. MACKENZIE KING.

ONTARIO

OFFICE OF THE PRIME MINISTER AND PRESIDENT
OF THE COUNCIL

TORONTO, October 16, 1946.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
House of Commons,
Ottawa, Ontario.

Dear Mr. KING,

Your letter of October 10 leaves no doubt that you have closed the door on any further consideration of requests for an early resumption of the Dominion-Provincial Conference in spite of my continued efforts to have the conference reconvened. I can add nothing to the arguments I have put forward in an effort to convince you of the urgent need for a basic Dominion-Provincial agreement acceptable to all provinces. It is apparent that not only are you preventing the possibility of such an agreement now, but that you are determined to follow a course which will still further prejudice the ultimate possibility of reaching any satisfactory agreement on Dominion-Provincial relations.

You are well aware that the nine provinces were only induced to sign the wartime tax agreements in 1942 from patriotic motives and with the unqualified undertaking of the Dominion Government that by the temporary surrender of their most productive progressive tax fields they would not "be deemed to have surrendered, abandoned or given over to the Dominion any of the powers, rights, privileges or authority vested in the provinces under the provisions of the British North America Act, 1867, or any subsequent act of Parliament of the United Kingdom or otherwise to have impaired any of such powers, rights, privileges or authority." The Dominion Government further undertook as a solemn contractual obligation to reduce its taxes when these agreements expired so that the provinces might have their established taxing powers restored without any impairment of their position.

Without consulting the provinces, the Dominion Government went still further than the terms of the wartime agreements and entered tax fields which up to the war were solely occupied by the provinces, such as succession duties, gasoline tax, electricity tax, mining tax, amusement tax and pari-mutuel tax. It still further made tremendous peacetime commitments during the war years in fields of public services clearly falling within provincial jurisdiction.

The emergency of the war was pleaded as a reason for the provinces giving up their rights in 1942. The emergency created by its peacetime commitments and duplication of services in utter disregard of its promises is now pleaded by the Dominion Government as the reason the provinces are to be denied their rights in 1946.

Immediately after the present Ontario Government took office in 1943, I made my first request that you call a Dominion-Provincial conference to combine the constitutional powers of all governments under an effective plan for meeting the tasks of the post-war years.

Finally you agreed to do this and we met at your invitation in Ottawa on August 6 last year. From the outset, the Ontario Government has emphasized the need for a clear definition of the responsibilities of the Dominion and the provincial governments and a definite allocation of taxing powers which would assure the ability of those governments to carry out their obligations. The Dominion Government has refused at all times to even consider this proposal. It simply insists that the provinces continue to stay out of those tax fields which have been theirs since Confederation and at the same time refuses to give any undertaking whatever that it will avoid duplication or even that it will not exhaust other tax fields to the point where the provinces would have no possibility of raising the revenues necessary for performing their duties to the people of their own provinces.

I must take the very strongest exception to your statement that Ontario's position has made agreement difficult. Ontario offered to vacate the most important progressive tax fields of corporation and personal income tax for the term of the proposed temporary agreement in return for an annual rental payment. The minimum payment asked by the Province of Ontario was, in fact, below that named by the Dominion Government. At no time has Ontario asked for a larger annual minimum payment than was actually offered by the Dominion Government itself. It has, however, insisted that the Dominion Government end double taxation in fields which it is bound to vacate if it lives up to its undertaking to restore the provinces to the tax position they occupied before they signed the agreements in 1942 and give some undertaking that it will respect our taxing rights.

If the provinces accepted anything else, the Dominion Government would be in a position to destroy their financial ability to carry out their duties at any time. To use the same words that I used at the conference, they would reduce themselves to the role of clamorous beggars at the door of the Dominion Government.

We have emphasized at all times our conviction that health services and social security should be on a national basis, and that they can only be maintained at a uniform level if there is agreement between all the governments. Never at any time, either in the open or closed sessions of the conference, was there any doubt about the acceptance of that principle by any government. The point upon which most of the provinces disagreed with the Dominion Government was the refusal of the Dominion Government to give any assurance that the taxing powers of the provinces in fields other than income tax would be respected.

You stressed the point that the conference could not bind any government by its decision, a proposition incidentally which has never been questioned at

any time. Nevertheless you say that the provinces must be bound by the decision of the Dominion Government as to what tax arrangement they can make because that arrangement, arrived at without consultation, has in your opinion gained the force of law by Parliament's approval of Mr. Ilsley's Budget Address. You deny the very principle you assert in bringing this unfair pressure on provinces which are in need of financial assistance. Ontario is not in that position, but it does sympathize with those provinces which have found it necessary to accept the arbitrary terms of the Dominion Government. In the interests of the whole Canadian economy and of the people of every part of Canada, the Ontario Government will continue to resist this wholly improper and dangerous trend in Dominion-Provincial relations.

I am not overlooking the statement in the last paragraphs of your letter that you will be prepared to meet in a general conference after all the provinces have accepted the financial arrangements presented to them in such a high-handed manner as part of Mr. Ilsley's Budget Address. That and other statements in your letter are so far removed from the facts that I feel I must deal briefly with them.

You are not offering to reconvene the conference which adjourned on May 3 at any time. It was the financial relationships between the Dominion and the provincial governments which had been the main subject of discussion at the four meetings of the conference, and it was the exclusive subject of discussion at the time we adjourned. Any conference which excluded the discussion of that subject from its deliberations could not by any stretch of the imagination be regarded as a continuance of the adjourned conference.

You now say that, "The conference did not adjourn until it was apparent that a general agreement in principle was not possible in time to make new agreements with the nine provinces before the present wartime tax agreements expired." In your letter of September 27 you offered quite a different reason. You said, "It was apparent that no general agreement could *then* be reached." That was in keeping with Mr. Ilsley's statement when he moved the adjournment of the conference, that "*agreement at the moment* is found to be impossible." The truth is that neither you nor any other representative of the Dominion Government made any suggestion at the time we adjourned that it had become apparent that agreements with the nine provinces could not be reached before the wartime tax arrangements expired.

In further support of this explanation you say that one of the premiers had already left before we adjourned. The record is perfectly clear on that point. The one premier who had left before adjournment at all times expressed his earnest desire that we reach a general agreement and gave his assurance that he would return to the conference for that purpose just as soon as the Dominion Government was prepared to show some spirit of co-operation. Nor was he the only premier who put his finger on the real barrier to agreement from the very beginning. You will recall these words of the Premier of Alberta on May 1, "if this conference fails, the responsibility for its failure will rest squarely on the doorstep of the Dominion Government, and will be due to the attitude of uncompromising rigidity expressed on behalf of the Government by the Minister of Finance".

You make much of the fact that you have entered into separate negotiations with some of the provinces, and for that reason are unable to call the conference together until you have completed those negotiations. The fact that governments representing less than one-quarter of the people of Canada have found it necessary to accept terms placed before them outside of the conference is no justification whatever for your refusal to comply with the requests of other provincial governments which represent, in their local affairs, more than three-quarters of the people of Canada.

The Government of Ontario is more impressed than ever with the need for a national pattern within which the responsibilities of all governments will be clearly defined and each government assured of tax resources adequate for the purpose of carrying out those responsibilities. That should be done before the situation becomes further confused.

My colleagues in the Ontario Government have carefully considered the statements in your letters and we can only conclude that your effort to force individual agreements upon all the provincial governments in violation of the very principles which you have yourself asserted in the past, is part of a settled design to substitute for a modern and overhauled federal system such as we have urged, a form of centralized authority which still carries the name of Confederation but is in truth a *de facto unitary* government at Ottawa. This you are seeking to do by economic pressure.

When I spoke in my letter of October 2 of the far-reaching consequences which would result from your refusal to reconvene the conference, I was not referring so much to the failure of the conference itself as I was to the wider effect such a decision would have. I was trying to impress upon you the extent to which your refusal would undermine our whole federal system which depends, so completely, for its effective operation upon good faith and the mutual fulfilment of honourable obligations between governments and the representatives of those governments.

I am not writing this letter with much hope that you will change your mind. I do wish to keep the record straight, however, and once again to voice my firm conviction that the course you are following seriously threatens one of the most important principles underlying our whole democratic structure. Since you have closed the door to any further discussion of this subject, I am releasing our correspondence to the press so that the people of Ontario may be correctly informed as to what has taken place, and may know the reasons you have offered for refusing to comply with repeated requests for further meetings of all the governments of Canada to bring together our combined constitutional powers to their best advantage.

Yours truly,

GEORGE A. DREW.

OFFICE OF THE PRIME MINISTER

CANADA

OTTAWA, October 18, 1946.

The Honourable GEORGE DREW, M.L.A.,
Premier of Ontario,
Parliament Buildings,
Toronto, Ontario.

My dear Premier:

Re: Dominion-Provincial Conference

Your letter of the 16th instant was delivered by the postal authorities at my office at 10 a.m. yesterday, the 17th. Its text had been given to and appeared in the press before the letter itself was received at Ottawa. It would seem that this was to ensure its publication before there was an opportunity for any reply from myself.

In your letter you state that you wish to keep the record straight. This renders it necessary for me to draw attention to statements in your letter which do not accord with the record. It also makes it imperative that the public should be made aware of my reply to your letter with as little delay as possible. Accordingly I purpose to have a copy of this letter made available to the press immediately after the letter itself has been duly mailed to you.

In your letter you state: "The Dominion Government further undertook as a solemn contractual obligation to reduce its taxes when these (i.e. war-time tax) agreements expire." This statement would seem to imply that that obligation was not being met by the Dominion Government. The fact is that in fulfilment of that obligation Parliament has already approved the reduction, from January 1 next, of income and corporation taxes. Moreover, this is the second reduction in Dominion income taxes since the end of the war.

You state that: "The emergency created by its peacetime commitments and duplication of services in utter disregard of its promises is now pleaded by the Dominion Government as the reason the provinces are to be denied their rights in 1946." No such plea has ever been made by the Dominion Government. The fact is that the Dominion Government is seeking neither to deny nor to curtail the rights of the provinces. What we have done is to offer the provincial governments compensation for the use of certain tax fields in the form of what we believe to be a fair annual rental.

You state that the Dominion Government "insists that the provinces continue to stay out of those (i.e. income and corporation) tax fields." The Dominion Government does not insist on any province withdrawing from any tax field. The fact is that under our proposal each provincial government is wholly free to rent its tax fields or not, as it sees fit.

You state, in reference to taxation, that the Dominion Government "refuses to give any undertaking whatever that it will avoid duplication". The fact is that the Dominion Government desires to avoid duplication in the field of income and corporation taxation in which field duplication is of serious consequence, and has offered to rent these fields from the provinces. The Minister of Finance has stated that he is likewise prepared to consider any offer which, in order to avoid duplication, the provinces may make to rent the exclusive use of certain minor direct tax fields. In other words, we are prepared to consider exactly the same kind of offer as we ourselves have made. The Dominion Government is not asking the provinces to surrender any of their jurisdiction. For identical reasons we are not prepared to alienate any of the jurisdiction given to the Dominion Parliament by the British North America Act.

You state that: "At no time has Ontario asked for a larger annual minimum payment than was actually offered by the Dominion Government itself." The fact is that, over and above the annual payments to the provinces, the Ontario proposal involves added burdens and substantial additional losses of revenue to the Dominion Treasury.

You state that: "The point upon which most of the provinces disagreed with the Dominion Government was the refusal of the Dominion Government to give any assurance that the taxing powers of the provinces in fields other than income tax would be respected." The fact is that assurances were given by the Dominion Government that, except to meet a national emergency, the rates of certain minor taxes would not be increased. Moreover, the action taken in the last Dominion Budget is of itself an assurance that the taxing powers of the provinces are being respected. Special provision was then made to make it possible for provincial governments to avoid imposing hardship on residents of those provinces which might prefer not to enter into tax agreements with the Dominion. No similar provision existed before the war.

You state that: "The one Premier who had left before adjournment at all times expressed his earnest desire that we reach a general agreement and gave his assurance that he would return to the Conference for that purpose just as soon as the Dominion Government was prepared to show some spirit of co-operation." As all who were present at the Conference are fully aware, the fact is that despite repeated requests from the representatives of the Dominion and of provincial governments, the Premier to whom reference is made at no time stated what were the concrete terms on which his province was prepared to make an agreement.

You state that the Dominion Government is making an effort "to force individual agreements upon all the provincial governments." The situation is entirely the reverse. The fact is the Deminion Government is not seeking to force any agreements. It is open to each province to accept or to reject the offer which was made in the Dominion Budget. It is for each provincial government to judge for itself as to the course which in its opinion will best serve the interest and welfare of the people of its province.

You make much in your letter of the question as to whether it was stated in May that it had become apparent that agreement with the nine provinces could not be reached before the wartime tax agreements expired. The question as to whether this had become apparent is a matter of opinion of which the public itself is perhaps the best judge. In this connection you will recall that on the closing day of the Conference you said: "The government of Ontario has gone the very limit in making agreement possible, and when I say that it has gone the very limit, I mean that it is prepared to make adjustments in detail, but not adjustments in principle or adjustments in regard to the net overriding amount which it receives."

If I refrain from commenting on other affirmations or inferences in your letter, which otherwise I might wish to do, it is because I believe there is little likelihood of the public mistaking mere assertion for fact. There has been no closing of any door. The people of Canada have not forgotten the circumstances which occasioned the adjournment of the Conference in May last. It is the situation disclosed at that time which causes the Dominion Government to feel that it would be inadvisable to have the Conference reassemble before the provinces have indicated their attitude towards the proposals of the Dominion Government. In this connection, may I again mention that thus far the Dominion Government has been given no indication of the position of the Government of Ontario respecting the proposals made in the Dominion Budget.

Yours sincerely,
W. L. MACKENZIE KING.

ONTARIO
OFFICE OF THE PRIME MINISTER AND PRESIDENT OF THE
COUNCIL

TORONTO 2, October 21, 1946.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
House of Commons,
Ottawa, Ontario.

Dear Mr. KING:

I have to-day received your letter of October 18 on returning to Toronto. It adds nothing to what has been said. It does seem necessary however to recall the reason for our correspondence. Since May 3 one simple and very important question has been waiting for your answer. Will you fulfil your undertaking

to the provincial premiers who entrusted you with the Chairmanship of the Conference and act upon their frequently repeated public requests for another meeting? That is what we have been trying to find out for several months. The heads of provincial governments which, in their provincial affairs, represent well over three-quarters of the people of Canada have asked you to reconvene the adjourned Conference, not some new conference which has been deprived in advance of any opportunity to discuss those tax adjustments which constituted the basic problem confronting us at our earlier meetings.

I find it difficult to understand your statement that we have not indicated our attitude in regard to Mr. Ilsley's tax ultimatum to the provinces which was put forward in his Budget Address to the House of Commons. We have described the arbitrary terms which you sought to impose as improper and the manner in which they were presented as high-handed. What clearer indication can we give you? Our attitude is that intergovernmental business cannot be conducted on such a basis and that it completely undermines any spirit of mutual confidence and co-operation. That is something which can only be restored by another meeting of the representatives of all our governments.

As I have repeated on several occasions, the Ontario Government is ready and anxious to send its representatives to Ottawa as soon as possible for a general conference such as we had the right to expect when we adjourned. Other governments have said the same thing. The possibility of substantial success or the certainty of failure rests in your hands. The provincial governments have done all they can to impress upon you the importance to the whole country of another meeting without further delay.

You are still the Chairman of the Conference. You and you alone have the obligation and the opportunity to make it possible to find a basis for general agreement which is so essential to the future welfare of all Canadians. No further exchange of letters will serve any useful purpose. The majority of the premiers have asked that the Conference meet again immediately to discuss satisfactory temporary tax arrangements to replace the agreements which terminate with the end of the present fiscal year. Your duty, as defined in your own words, is to act upon their request. There is nothing more to be said.

Yours truly,
GEORGE A. DREW.

OFFICE OF THE PRIME MINISTER
CANADA

OTTAWA, October 22, 1946.

The Honourable GEORGE DREW, M.L.A.,
Premier of Ontario,
Parliament Buildings,
Toronto, Ontario.

My Dear PREMIER:

Re: Dominion-Provincial Conference

I have received this morning your letter of yesterday which had been previously made public by yourself.

I agree with you that no further exchange of letters will serve any useful purpose. The points you bring up in your present letter have all been raised and answered in our previous correspondence.

Yours sincerely,

W. L. MACKENZIE KING.

OFFICE OF THE MINISTER OF FINANCE
CANADA

OTTAWA, January 21, 1947.

The Honourable GEORGE DREW, M.L.A.,
Premier of Ontario,
Legislative Buildings,
Toronto, Ontario.
My dear Premier,

During the negotiations with various provinces in regard to the Budget proposals of June 27 last, we have suggested, in the endeavour to find a formula which would be equitable and satisfactory to all provinces, two additional alternative options covering the rental payments to be made to the provinces for the tax fields to be vacated. I was anxious that you should be made acquainted with these additional proposals before I make them public, which I intend to do shortly.

The first of these two new options involves, in addition to a per capita payment, some recognition of the differing potential yields to various provinces of the tax fields in question and the retention of the statutory subsidies which are the result of some generations of adjustment and tradition.

In other words, the guaranteed minimum annual payment by the Dominion will be calculated in the following way:

- (1) \$12.75 per capita of the 1942 population of the province, plus
- (2) 50 per cent of the province's tax receipts from income and corporation taxes in 1940 as determined for purposes of the wartime tax agreements, plus
- (3) statutory subsidies.

The second new option is designed to meet the case of those provinces which in 1940 were using income and corporation taxes only to a relatively small extent. Under this option the guaranteed minimum annual payments by the Dominion would consist of

- (1) \$15.00 per capita of the 1942 population of the province, plus
- (2) statutory subsidies.

Under both options the guaranteed minimum payment would be subject to the escalator clause, that is to say, it would be increased in accordance with increases in per capita gross national product and provincial population since 1942 on the same basis (including the use of the three year average for purposes of calculation) as previously proposed.

For your convenience in studying how these new options would affect various provinces, I am enclosing a table showing the guaranteed minimum payments and probable 1947 payments based on present calculations and estimates, for each province under the original Budget proposals (subject to acceleration in all cases), under each of the two new alternative formulae and under the more favourable of these two formulae.

Yours sincerely,

D. C. ABBOTT.

Enclosure

MINIMUM AND ESTIMATED 1947 PAYMENTS UNDER FORMULAS A, B AND C
(Thousands of Dollars)

	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
(1) FORMULA A (BUDGET FORMULA WITH ESCALATOR CLAUSE FOR ALL PROVINCES)										
<i>Guaranteed Minima</i>										
<i>Estimated 1947 Payments (a)</i>										
(2) FORMULA B (\$12.75 PER CAP., ETC.)										
<i>Guaranteed Minima—</i>										
(1) \$12.75 per capita on 1942 population.....										
(2) 50% of provincial income and corporation tax receipts, base year, 1940.....										
(3) Statutory Subsidies.....										
<i>Total Minima, Formula B.....</i>										
Formula A Minima.....										
<i>Increases</i>										
<i>Estimated 1947 Payments—Formula B (a)</i>										
<i>Estimated 1947 Payments—Formula A (a)</i>										
<i>Increases</i>										
<i>Estimated 1947 Payments—Formula C (a)</i>										
<i>Estimated 1947 Payments—Formula A (a)</i>										
<i>Increases</i>										
(3) FORMULA C (\$15.00 PER CAP. PLUS STAT. SUBSIDIES)										
<i>Guaranteed Minima—</i>										
(1) \$15.00 per capita on 1942 population.....										
(2) Statutory subsidies.....										
<i>Total Minima, Formula C.....</i>										
Formula A Minima.....										
<i>Increases</i>										
<i>Estimated 1947 Payments—Formula C (a)</i>										
<i>Estimated 1947 Payments—Formula A (a)</i>										
<i>Increases</i>										
(4) BETTER OF FORMULA B AND C										
Guaranteed Minima.....										
<i>Estimated 1947 Payments</i>										

(a) Preliminary estimate only; subject to revision.

ONTARIO

OFFICE OF THE PRIME MINISTER AND PRESIDENT OF
THE COUNCILTORONTO 2,
January 23, 1947.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
House of Commons,
Ottawa, Ontario.

Dear Mr. King:

A letter from the Honourable Douglas Abbott, bearing the typed date January 21, was delivered to my office this afternoon. It contains what purport to be new proposals for tax agreements between the Dominion and provincial governments. I take it that this letter has been sent with your approval and with the full authority of the Dominion Government.

It is perhaps unnecessary to remind you of the number of occasions on which I urged you to reconvene the Dominion-Provincial Conference. You will remember that in your letter of October 10 you explained to me that this could not be done because the Minister of Finance had included certain proposals in his budget to which Parliament had given approval on June 27 last. You said that for this reason the position of the Dominion Government, to use your words, "given the force of law by Parliament is not a position that can be changed by any decision of the Conference".

It is obvious that you no longer consider the Dominion Government to be under any such limitation because the proposals now put forward depart radically both in principle and detail from those approved by Parliament on June 27.

As no other explanation is offered for sending this information to me, I do hope I may take Mr. Abbott's letter as an indication that you are now prepared to reconvene the Dominion-Provincial Conference which adjourned last May on the motion of the Dominion Government.

I assure you that the Government of Ontario will be ready to attend such a Conference in Ottawa at any time and there examine and consider all proposals on their merits. We are most anxious to arrive at a settlement which will be just and fair to the people of every part of Canada.

Yours truly,

GEORGE A. DREW.

OFFICE OF THE PRIME MINISTER
CANADA

OTTAWA, January 27, 1947.

The Honourable GEORGE A. DREW, M.L.A.,
Premier of Ontario,
Toronto, Ontario.

Dear Mr. Drew:

Re: Dominion-Provincial Tax Agreements

I duly received the letter you addressed to me on the 23rd instant and subsequently made public.

You were right in assuming that I was aware that the Minister of Finance had forwarded to you the statement to which it refers. Mr. Abbott mentioned to me that, as the Premiers of seven of the provinces with whom he had been

negotiating tax agreements, were aware of the Government's revised proposals, he felt that as a matter of courtesy he would like to send copies to Mr. Duplessis and yourself in advance of their publication in the press.

You are mistaken, however, in assuming that this act of courtesy on the part of the Minister of Finance was intended to indicate that the Government proposed to reconvene the Dominion-Provincial Conference for the purpose of attempting further to negotiate the tax agreements at a general conference. Thus far the method of negotiation with the provinces individually, which was the method it was finally found necessary to adopt when the wartime tax agreements were originally negotiated, has been much more satisfactory in its results to those provinces that have sought agreement by individual negotiation than anything hitherto accomplished by a general conference. By this method it has also been found possible to arrive much more readily at a settlement which we believe will be just and fair to the people of every part of Canada.

In your letter you refer to the position of the Dominion Government regarding the holding of a Conference, as that position was set out in my letter of October 10, 1946. In that letter I stated that Parliament had enacted the legislation necessary to make the provisions of the budget operative. As stated in your letter, I added that the position of the Dominion Government having been given the force of law by Parliament, it was not one which could be changed by any decision of the Conference. This statement to be understood requires to be read in the light of the rest of the paragraph from which it has been taken. The conclusion of the paragraph is as follows:

"The most a Conference could do, in that regard, would be to bring about, among the participating governments, a willingness to recommend to the legislative bodies to which they are separately responsible the enactment of legislation providing for something different."

You suggest that the Dominion Government no longer considers that this limitation exists because, to use your words, "the proposals now put forward depart radically both in principle and detail from those approved by Parliament on June 27.

The new options offered to the provinces differ from the budget proposals in one particular, and in one particular alone. The annual rental offered to the provincial governments for the temporary occupancy of the tax fields in question has been increased. As you are certainly aware, the amount of the rental was not a matter of legislation, and will not become so until agreements are concluded. What has been given the force of law is, of course, the Dominion tax structure on which the offer to the provinces is based. The new options offered to the provincial governments do not involve any alteration in that respect. As a consequence, all the reasons given in our earlier correspondence for continuing to proceed by negotiations with each province individually have lost none of their force. Indeed, with the passage of time and the successful conclusion of negotiations with several of the provinces, they are stronger than ever.

Allow me to add that my colleagues and I are, of course, prepared to arrange a conference with representatives of the Government of Ontario at any date which may be mutually convenient.

Yours sincerely,

W. L. MACKENZIE KING.

CANADIAN PACIFIC TELEGRAPHS

QUEBEC, June 28, 1946.

Right Honourable J. L. ILSLEY, P.C., K.C.,
 Minister of Finance,
 Ottawa.

Your telegram concerning your budget speech of yesterday and dated Ottawa June 27 instant reached me to-day (stop) as soon as we receive the copy of your budget speech referred to I will study it with my colleagues in the government of the province (stop) as I stated time and over again our offer of sincere and full cooperation on a fair and constitutional basis always stands.

M. L. DUPLESSIS.

*Translation*OFFICE OF THE PRIME MINISTER
 PROVINCE OF QUEBEC

QUEBEC, January 27, 1947

Honourable D. C. ABBOTT,
 Minister of Finance,
 Ottawa, Ontario.

Dear Mr. Minister,

Returning to Quebec this morning I wish to acknowledge immediately your letter of January 22 which was delivered by mail last Friday at my office just before my departure from the old capital. I also received the table you sent to me on "Minimum and estimated 1947 payments under formulas A, B and C".

My colleagues and I will carefully study your letter and the table attached thereto in the light of the Canadian Constitution, of provincial rights, in particular of the rights of the Province of Quebec, and in the light of the rights of the central government.

As we are still at the beginning of the year, I take the occasion to renew to you my personal wishes for a happy year.

M. L. DUPLESSIS.

(Copy)

OFFICE OF THE PRIME MINISTER

OTTAWA, January 30, 1947.

Honourable MAURICE DUPLESSIS,
 Premier of Quebec,
 Parliament Buildings,
 Quebec, Que.

My Dear PREMIER:

My colleague, the Minister of Finance, has shown me the letter you addressed to him on January 27, in acknowledgment of the letter in which Mr. Abbott advised you of the new options offered by the Dominion Government as a basis for tax transfer agreements with the governments of the provinces.

I note from your letter that it is the intention of the Government of Quebec to give careful study to the revised proposals. I feel, accordingly, that I should extend to you, as Premier of Quebec, the assurance I have already had occasion to give to the Premier of Ontario, namely, that if the Government of Quebec wishes to discuss these proposals with the Dominion Government, my colleagues and I are prepared to arrange a conference with representatives of the Quebec Government at any date which may be mutually convenient.

Your sincerely,

(sgd) W. L. MACKENZIE KING.

CANADIAN PACIFIC TELEGRAPHS

HALIFAX, July 2, 1946.

Right Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa.

Will you please advise me on the following points: (1) does the Dominion propose to continue in gasoline, amusement tax and other fields formerly occupied exclusively by provinces; (2) are the health grants which were specified to be used for certain purposes such as tuberculosis, mental care, and so on to be made regardless of whether provinces enter agreement with Dominion or not; (3) what has Dominion in mind respecting unemployment relief, (a) if province enters agreement, (b) if province does not; (4) in reference to tax on corporate income you speak of an allocation between provinces (stop) Will you please elaborate this does it mean a province might share in general corporation tax as raised in Dominion as a whole.

A. L. MACDONALD.

CANADIAN NATIONAL TELEGRAPHS

OTTAWA, July 5, 1946.

The Honourable A. L. MACDONALD, M.L.A.,
Premier of Nova Scotia,
Halifax, Nova Scotia.

Replying your telegram July 2 will deal with questions seriatim: (1) on basis of present optional offer which presumably will not be accepted by all provinces at once Dominion can make no commitments in regard to minor tax fields but you will recall that on basis of agreements being made with all provinces Dominion was willing to give favourable consideration to renting to provinces exclusive use of certain of these tax fields provided the provinces could agree on a rental consideration which would provide Dominion with financial equivalent; (2) health grants are not included in present offer and what may be advisable and possible with reference to them must necessarily be a matter for further consideration; (3) regarding unemployment relief Dominion proposals made at the conference were necessarily dependent upon agreement of all the provinces; (4) my references in budget speech to allocation of corporate incomes between provinces was merely meant to indicate that the special five per cent corporate tax to be imposed by adhering provinces would be on a uniform basis with uniform rules for allocating the income of a corporation between various provinces in which it did business or earned income

(stop) Any revenues raised from this tax for account of province would reduce annual subsidy and thus in effect total payments received by province (stop) The reference does not mean that a province would share in general corporation tax as raised in Dominion as a whole but this latter result is accomplished in effect by payment of grants to all provinces on a uniform per capita basis as rental for exclusive use of the tax fields in question.

J. L. ILSLEY.

THE PREMIER

HALIFAX

OCTOBER 16, 1946.

Right Honourable W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
Ottawa, Ontario.

Dear PRIME MINISTER:

On my return to this office after an absence of a week, I find before me Mr. Alex Skelton's letter of October 4, enclosing copies of correspondence between the Premiers of Saskatchewan, Alberta and Ontario on the one hand, and you and Mr. Ilsley on the other.

The most complete statement of the Dominion's position seems to be contained in your letter of September 27 to the Premier of Ontario. In that letter you say that certain provinces have accepted in principle the Dominion proposals as set out in the Budget Speech of June 27, that negotiations have been entered into with these provinces and that such negotiations should have priority. It is true that three provinces have entered into negotiations with the Dominion authorities but on the other hand six provinces have not. In any event, I should think that inasmuch as negotiations with the three provinces were begun some time ago, they should be completed, or well on the road to completion by this date. I do not think, therefore, that this aspect of the matter should be allowed to stand in the way of another conference.

Later on, you say that once satisfactory financial relationships have been agreed upon, the Dominion Government will be prepared to resume, in a general conference, the working out of mutually satisfactory arrangements relating to public investment and social welfare. I should like to point out that the two matters specifically mentioned—public investment and social welfare—while important in themselves are only two of a large number of topics discussed at the conferences already held. All other questions considered at the conferences depend for their settlement so largely on the nature of the financial arrangements between the Dominion and the Provinces that it seems illogical to attempt to settle the main question by discussion with individual provinces and then to confer on dependent matters the dignity of consideration by a general conference.

The proposals of the Dominion Government were set out as an integrated whole to a general conference in August 1945, and I feel that consideration of these proposals should follow the same pattern. I cannot think it desirable that the work of the conference should be divided in the way suggested, or that the task of the conference should be approached, as it were, piecemeal.

On August 9 last, after the Government of Nova Scotia had given very careful consideration to the whole matter, I made a public statement to the effect that I felt that the Dominion-Provincial Conference should reassemble. My colleagues were, and are, unanimous in this view. We all feel that no harm can come, and that much good may come from such a meeting.

I, therefore, ask that the conference be reconvened and I should like to hope that you and your attending colleagues might find it possible to arrange for a meeting in, say, a month's time. It would probably be impossible for all concerned so to arrange their affairs as to allow them to attend a conference at an earlier date. I should like to suggest that some suitable date in the latter half of November be fixed for the purpose.

Yours very truly,

A. L. MACDONALD.

OFFICE OF THE PRIME MINISTER
CANADA

OTTAWA, October 22, 1946.

Honourable ANGUS L. MACDONALD, P.C.,
Premier of Nova Scotia,
Halifax, N.S.

My Dear PREMIER:

Re: Dominion-Provincial Conference

I duly received your letter of the 16th instant, written in the light of the correspondence prior to October 4 between the Dominion Government and the Premiers of Saskatchewan, Alberta and Ontario. You will since have received copies of the exchange of letters between the Premier of Alberta and myself, and of the further correspondence with the Premier of Ontario.

In response to your request that the Conference be reconvened, there is little I can add to what appears in the correspondence which you will have already seen.

The Dominion Government does not feel that any useful purpose will be served by resuming the Conference merely to debate anew the situation as it existed in May last. It was abundantly clear at that time, that, without some change of attitude, no general agreement was possible. Since the Conference adjourned in May, there has been nothing to indicate that the attitude of certain provincial governments has altered. Without reasonable hope of achieving general agreement on matters of common concern, a resumption of the Conference might serve only to make still more difficult an eventual long-term agreement between the Dominion and the Provinces.

Our Budget proposals are the only specific proposals made since May last by any one of the Governments participating in the Conference. We feel, in considering what may be most advisable with respect to resuming the Conference, that it is not unreasonable for us to await from each of the Provincial Governments an indication of its position respecting these proposals.

As to consideration of public investment and social security matters, I have already made it clear that the Dominion Government is prepared, at all times, to give consideration to specific proposals on any aspect of Dominion-Provincial relations which one or more of the Provinces may wish to have considered.

Yours sincerely,

W. L. MACKENZIE KING.

THE PREMIER
HALIFAX

December 5, 1946.

Right Honourable W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
Ottawa, Ontario.

Dear Mr. KING:

The Government of Nova Scotia has given full consideration to your letter of October 22nd. We note your statement that "the Budget proposals are the only specific proposals made since May last by any one of the Governments participating in the Conference" and also your statement that "in considering what may be most advisable with respect to resuming the Conference, it is not unreasonable for the Dominion Government to await from each of the provincial governments an indication of its position respecting the Dominion proposals." Accordingly, I shall now set down the position of the Government of Nova Scotia with regard to the Budget proposals.

(1) The Government of Nova Scotia emphasizes its strong conviction that a general conference between representatives of the Dominion and of all the Provinces is the only proper forum for the discussion of a matter so grave and so important as this. We do not think that the problems involved can be settled properly by correspondence or by private treaty between the Dominion and individual provinces. The original Dominion proposals were submitted to a general conference. The Budget proposals have never been submitted to a general conference. We think that they should be discussed in general conference as were the original proposals and that discussion should continue so long as any hope of agreement remains. We believe that there is still ground for such a hope.

(2) We note that the proposals are not nearly so comprehensive in scope nor so onerous on the Dominion Government as the Dominion proposals previously made. They do not deal directly and specifically with such matters as unemployment assistance, old age pensions, health insurance, public investment and other matters, all of which had been discussed in earlier Dominion proposals. We have, however, noted the assurance of the Minister of Finance, that these matters have not been permanently set aside but rather have been stood in abeyance until satisfactory arrangements can be made in regard to them. This we take to mean that they will be again considered if and when all provinces have signed an agreement with the Dominion.

(3) The Government of Nova Scotia is prepared, for the term of the agreement, to refrain from levying taxes on personal incomes and to refrain from levying succession duties. We accept the Budget proposals in respect of corporation tax.

We should like to point out that in making the above written concessions we are doing what lies in our power to make available to the Dominion Government, for the period of the agreement, three fields of taxation which last year yielded to the Dominion Treasury approximately one and one-half billion dollars. In normal times, and allowing for reductions in income tax, corporation tax, and excess profits tax, these fields should yield, say, at least one-half that sum, or \$750,000,000 yearly. There is no doubt as to the constitutional right of the Provinces to remain in these fields. Assuming that the revenues from these fields would be equally shared by the Provinces and the Dominion, the Provinces would hope, therefore, to secure a revenue of \$375,000,000.00 yearly from personal income taxes, corporation income taxes and succession duties. The Provinces are now asked to forgo their undoubted right to collect this

great amount of revenue, and as compensation they are to receive per capita grants which total approximately \$180,000,000.00 or about one-half of what they might hope to secure from the fields they are asked to abandon.

(4) Nova Scotia finds itself, from the very nature of things, with no hope of territorial expansion and, in this respect, at a disadvantage as compared to other provinces which have already received large accessions of territory. Our experience impels us to scrutinize closely proposals which tend to impair the strength of our position as a province and, consequently, to lessen the force of any representations we might wish to make on behalf of our people. The Dominion proposals narrow considerably the base of taxation left to the Province and therefore have the effect of diminishing provincial autonomy, an effect which in our judgment will not be remedied by money grants from the Dominion to the Provinces. Believing this, it is with great reluctance that we make the temporary concessions set out herein. We make them on the distinct understanding that they are temporary, and because we realize that the financial burden resulting from the war will be heavier on the Dominion in this five-year period than it will be thereafter.

I must now set forth the view of the Nova Scotia Government as to certain other matters not mentioned in the Budget Speech. We feel that besides making the annual per capita grant of \$15.00 to the Province, as promised in the Budget Speech, the Dominion Government should:—

(a) Retire from the gasoline tax field, the amusement tax field, and the electricity tax field. The gasoline tax, until the war period, was always a provincial tax and its proceeds were bound up with highway construction and maintenance which are provincial responsibilities. The amusement tax field is also essentially local in character. Electrical development has been on a provincial basis and it is very closely associated with programs of rural electrification and with plans for industrial development by the Provinces.

We must observe here that if, as the Dominion Government has often contended, duplicate taxation is undesirable in the matters of income tax, corporation tax and succession duties, it should be equally undesirable in the gasoline tax, amusement tax and electricity tax fields.

We point out here that the total revenue obtained by the Dominion last year from these minor sources was in the neighborhood of fifty millions of dollars. It seems to us not unreasonable for the Provinces to ask that they be given exclusive rights in these fields that last year yielded thirty times as much as the lesser sources enumerated at the beginning of the second-last paragraph. In other words, we take the position that the Dominion should withdraw from fields which yield to the Dominion Treasury some fifty millions of dollars, in return for the Provinces' withdrawal from other fields which provide one and one-half billion dollars. This position derives strength from the fact that the Dominion Government is not assuming, for the present at least, so many obligations as were contemplated in its original proposals, while at the same time it seeks to receive from the Provinces the same exclusive rights to revenue sources:

(b) Consider the special position of the Province, as recognized by the Duncan Commission of 1926 and the White Commission of 1935. These two Commissions, both set up by the Dominion Government, found that Nova Scotia was entitled to an additional annual subsidy which was finally fixed by the White Commission at \$1,300,000.00. That sum represented the interest at five percent per annum on the capital award of \$26,000,000.00. In arriving at that

figure, the White Commission declared that "the claims (of the Maritime Provinces) are for the most part based upon broad and general considerations of fairness and equity, having regard to the treatment enjoyed by other provinces under the same headings, and to the economic disadvantages to which the Maritime Provinces are peculiarly subject owing to their isolated geographical position in relation to the central and western parts of Canada, towards which the trend of Canadian development has continuously and increasingly set ever since the establishment of the Dominion." So basing their judgment, the White Commission found that this Province was entitled to an additional annual subsidy of \$1,300,000.00 and this amount was in fact paid to the Province by the Dominion from 1935 until the Wartime Tax Agreement was signed. The position of the Province in this respect was given statutory sanction by Chapter 14 of the Acts of the Parliament of Canada 1942. We ask that payment of this special annual subsidy be resumed and continued during the currency of the agreement:

(c) Give to the Province the assurance that it, the Dominion Government, is agreeable to the holding of a conference of representatives of the Dominion and of the Provinces at a fixed date every year for the discussion of Dominion-Provincial relations and problems. Such an arrangement was suggested by this Province to the Rowell-Sirois Commission in 1938, and was approved and recommended by that Commission. The idea was again advanced by us at the Dominion-Provincial Conference which assembled in January of this year. These views correspond with what you, yourself, said in opening a Dominion-Provincial Conference in December 1935: "At the present conference we can examine the basic principles underlying the (Dominion-Provincial) questions and provide machinery for their continued study and treatment This arrangement of continuity and permanence is necessary, because co-operation between the Dominion and the Provinces is too vital a matter to be left entirely for intermittent conferences and to correspondence between governments. Our secretarial arrangement and our proposed organization are based upon this desire—to have permanence and continuity."

In matters affecting Dominion-Provincial relations, regularly held conferences would provide an opportunity for informal advance discussion by all governments concerned. We firmly believe that such a method is preferable to that followed in the present instance, where the Dominion authorities made proposals vitally affecting the revenues and rights of the Provinces without any prior consultation with provincial governments.

It is obvious, though it would seem to need restatement here, that the provinces are an indispensable part of the federal structure. When matters that are primarily of provincial concern or that are of joint interest to both the Dominion and the Provinces are to be dealt with, it is improper, therefore, for the Dominion Government to determine the case and to make public its judgment without first consulting the Provinces:

(d) Agree that either at these proposed annual Dominion-Provincial conferences or at sessions of a special body set up for the purpose, the duties and fields of operation of the Dominion and Provincial Governments be re-examined with a view to the permanent allocation of exclusive and adequate sources of revenue to each governmental authority, said allocation to become operative on the termination of the agreement now under discussion and to have regard to the fiscal needs of the Provinces.

Yours very truly,

ANGUS L. MACDONALD.

OFFICE OF THE PRIME MINISTER
CANADA

OTTAWA, December 14, 1946.

Honourable ANGUS L. MACDONALD, P.C., M.L.A.,
Premier of Nova Scotia,
Halifax, Nova Scotia.

My Dear PREMIER:

My colleagues and I have now completed the consideration of your letter of the 5th instant with respect to the Dominion budget proposals for tax agreements between the Dominion and the provinces.

In replying to your letter I shall, for convenience of reference, follow the divisions of the letter itself.

(1) As to the view of the Government of Nova Scotia that the budget proposals should be discussed at a general conference of all the provinces, we are of the opinion that the procedure contemplated by the budget proposals, which we have been following, is, at this time, the most practical and effective method of making constructive progress. This procedure has already resulted in the reaching of agreements, on the basis of the budget proposals, with several of the provinces. Certain other provinces have not as yet stated in specific terms their attitude to the budget proposals. As a consequence, we have been given no grounds for believing that any greater progress could be made at a general conference now than was possible in May last.

(2) You correctly interpret the position of the Dominion Government regarding the social security and public investment proposals made to the Conference in August 1945, as amended on April 29 last. The Dominion position was set out explicitly in a telegram from myself to the Premier of Saskatchewan on July 15 in the following words:

" . . . as emphasized in the budget address, the public investment and social security proposals submitted last August remain an essential part of the Dominion Government's program. As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals."

(3) The Dominion Government notes with satisfaction that the Government of Nova Scotia is prepared, for the term of the agreement, to refrain from levying personal income taxes and succession duties, and to accept the budget proposals in respect of corporation tax.

Under these proposals the constitutional rights of the provinces are fully protected. The proposed agreement explicitly recognizes the continuing right of the provinces in the tax fields which are being rented to the Dominion for a temporary period.

The suggestion that the right of the provinces to impose income taxes and succession duties justifies any assumption on the part of the provinces that they might receive half the proceeds from all taxes collected in these fields is one the Dominion Government could not admit. Nor can it be admitted that the figures in respect of recent Dominion tax collections at high wartime rates, quoted in your letter, constitute a criterion as to what it would be practicable for the provinces to obtain, under peacetime conditions, from these tax fields, over and above the Dominion rates of tax which the cost of the war, and continuing obligations resulting therefrom, will in future necessitate.

It should be noted that, in the years before the wartime tax agreements were made, the total collections by the Province of Nova Scotia from the tax fields in question ran less than \$2 million a year, to which subsidies amounting to \$2.6 million should be added to permit of comparison being made with an estimated payment to Nova Scotia under the terms of the budget proposals of about \$10 million for 1947.

(4) The Dominion Government fully shares the view of the Government of Nova Scotia that the rights of the provinces should not be impaired. Indeed the whole purpose of the Dominion is to place provincial governments in a position to exercise their powers to provide public services in accordance with modern Canadian standards.

Moreover the temporary character of the agreement is fully recognized. During the currency of the agreement the Dominion is ready to continue to consider with the provinces any concrete proposals for variations or alternatives in any future agreement.

I now turn to those points, outside the budget proposals, which the Government of Nova Scotia requests the Dominion Government to consider:

(a) With reference to the proposal that the Dominion Government retire without compensation from so-called minor tax fields, I attach a copy of the statement already made of the intention of the Dominion Government to withdraw, as from April 1 next, the Dominion tax on gasoline sales. The tax on gasoline is by far the most important of the minor taxes referred to. Its repeal will represent a considerable loss of revenue to the Dominion Treasury.

With respect to other minor taxes we continue, as announced at the May Conference, to be willing to withdraw from the field of taxes on amusements and pari-mutuel bets, if all the provinces can agree among themselves on compensation satisfactory to the Dominion Government for the loss of revenue thereby incurred. What is referred to as the electricity tax is merely an item under the general sales tax. As you are aware, there is already a sales tax on a wide range of commodities, and the list of exemptions from this tax may be broadened or narrowed from time to time as the Dominion Government may consider advisable in the light of its revenue needs and general economic conditions.

(b) You suggest that the special annual subsidy payable as a result of the recommendations of the White Commission be resumed and continued during the currency of this agreement. Under the budget proposals all statutory subsidies, including the White Commission subsidies, are to be paid to the provinces, and much larger additional payments are also to be made. However, the proposals in your letter presumably mean that the White Commission subsidy should be added to the payment proposed in the budget.

I understand that, in discussion of the White Commission awards with the Right Honourable J. L. Ilsley, the then Minister of Finance, you referred to a point which we believe to be valid. The Prairie Provinces have been receiving an annual subsidy in respect to their natural resources and as a result of recommendations of three Royal Commissions, Manitoba has received, and Saskatchewan and Alberta have been offered, a capital sum payment representing compensation for loss of revenue to the provinces in respect of their natural resources during the period when the Dominion was administering these resources. Because these three provinces would thus receive part of the payment due them in the form of a capital sum rather than an annual subsidy, only a proportion of the total payment due to them in respect of their natural resources has to be deducted as a statutory subsidy from the annual payment provided for in the Dominion's proposals.

To place the Maritime Provinces, in this respect, in a position of equality with the Prairie Provinces, approximately 30 per cent of the special annual subsidy payable as a result of the White Commission recommendations should not have to be deducted from the proposed annual payment. Therefore, the Dominion is prepared to agree that 30 per cent of the White Commission annual subsidy should not be deducted from the annual payments to the Maritime Provinces proposed in the budget, as this amount is deemed to represent the equivalent on an annual basis of a capital sum corresponding to the capital sum paid to the Prairie Provinces in respect of their natural resources. This proposal is, of course, subject to the consent of the provinces which have already accepted the budget offer, and I have asked the Minister of Finance to consult them.

(c) and (d) In regard to your suggestion that the Dominion Government should agree to Dominion-Provincial Conferences at a fixed date annually, my colleagues and I feel that since there are no fixed dates for elections or for sessions of Parliament or of the provincial legislatures, it would be importing a principle foreign to our constitutional practice, and involving undesirable rigidity, to attempt to hold Dominion-Provincial Conferences at fixed dates. The Dominion Government recognizes the possible advantages of frequent conferences for the discussion of Dominion-Provincial relations and problems, and is prepared to say that such conferences should be held when the need for them arises, and where there is a reasonable degree of unanimity on the part of the provinces in the desire for a conference.

It is obvious that one of the important problems which would naturally come before any such conference would be an examination of the respective duties and fields of operation of the Dominion and provincial governments, as well as of the desirability and practicability of assuring adequate sources of revenue to each governmental authority.

We trust that, in the light of assurances contained in this letter, you and your colleagues will feel that the prospect of reaching a mutually satisfactory agreement is such as to justify the Government of Nova Scotia in concluding, at an early date, the negotiations for a tax agreement with the Dominion Government.

Yours sincerely,

W. L. MACKENZIE KING.

Enclosure

PRESS RELEASE

OTTAWA, December 14, 1946.

Hon. Douglas Abbott, Minister of Finance, announced to-day that the Dominion Government had decided to withdraw its 3 cents tax on gasoline sales, effective as from April 1, 1947.

Explaining this proposed action, Mr. Abbott pointed out that "the Dominion gasoline tax was put on in wartime in order to meet the urgent needs of war and it was not intended to retain it as a feature of the Dominion tax structure in peacetime any longer than was necessary. Indeed, it has been regarded as a particularly suitable tax for use by provinces to enable them to finance the construction and maintenance of highways.

"During the last provincial conference," said Mr. Abbott, "it was urged almost unanimously by the provinces that the Dominion withdraw from this field, and the individual provinces with whom the Dominion has carried on negotiations over the last three or four months have again made the same request."

"Before his retirement as Minister of Finance, my predecessor, the Right Honourable J. L. Ilsley, had decided that the Dominion's financial position had improved sufficiently to warrant the discontinuance of this tax from the beginning of our next fiscal year and I am pleased to be able to announce this decision at this time."

THE PREMIER

HALIFAX

December 18, 1946.

Right Honourable W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
Ottawa, Ontario.

Dear Mr. KING:

The Government of Nova Scotia has considered your letter of December 14.

In the budget proposals the Dominion Government made three specific requests of the provinces, namely that they retire from the fields of personal income tax, corporation tax and succession duties. The Government of Nova Scotia agreed to all three requests. Having done all that the Dominion Government asked us to do, we note with great regret that the requests which we made and which we thought were modest and reasonable in character, were only partly met by the Dominion authorities.

When your letter reached me on Monday evening last, I first thought of replying item by item to the points you make. In view, however, of what I shall state later, I do not now intend to follow this course. This is not to say that I find myself in agreement with your letter. On the contrary I disagree with much of it and in particular with the attitude of the Dominion Government in refusing to agree to annual Dominion-Provincial conferences and to retire from the amusement and electricity tax fields.

We have moved a long way from the position of August 6, 1945, when the Dominion proposals were first presented. The movement began in November 1945 but, undoubtedly, the greatest departure from the original position was taken on June 27 last in the budget speech. There, the social security measures of the original proposals were abandoned for the time being and the principle of dealing with individual provinces, instead of with all the provinces in a general conference, was adopted.

Since the budget speech, there have been still further departures from the old ground. Agreements have been entered into with certain provinces or, at all events, offers have been made to certain provinces by the Dominion which, either by themselves or through the effect of collateral agreements, make basic changes in the plans advanced by the Dominion Government to the provinces as a whole, and which put certain provinces in a position more favourable than is likely to result for other provinces. It may be said that the agreements made or proposed with the provinces have an "escape" clause or a "most favoured province" clause under which one province will benefit from any special treatment accorded to another province. Such a clause, however, would appear to apply only to matters involved directly in a Dominion-Provincial agreement, properly so-called, and not to collateral agreements that might be made as to other matters.

We have not before us here any knowledge beyond newspaper reports of the arrangements made with or offered to other provinces since the conference of May last. It is most important that there be disclosed to all provinces the full content, nature and extent of any arrangements or agreements, collateral or otherwise, made between the Dominion and any province. This seems to us an absolute prerequisite to proper consideration of the question of a suitable Dominion-Provincial agreement.

Undoubtedly there are individual differences in provincial positions that have to be considered. I do think, however, that these differences ought to be adjusted in general discussion between all provinces and the Dominion, and I am strengthened in this view by remarks that you made in the House of Commons as reported in Hansard 1926-27, page 1336: "To gain recognition by the rest of Canada as to the fairness and equity of any revision or readjustment of the financial arrangements as between the Dominion and the Maritime Provinces, it would appear that the proposed revision or readjustment should be made a subject of consideration in the first instance by a conference at which all of the provinces of Canada as well as the Dominion would be represented." In 1928 and again in 1930 in the House of Commons you took the same stand both with regard to the report of the Duncan Commission and with regard to the claims of the western provinces in respect of their natural resources. I believe that your stand on these occasions was perfectly sound.

I can assure you that the Province of Nova Scotia is willing to enter into an agreement with the Dominion, if an agreement that is fair to both parties can be reached, and I feel that every province entertains this view.

In view of the changes that have developed in the whole position since August, 1945, and of the varying character of the offers made to and the suggestions made by different provinces, it has occurred to me that the Dominion might now be prepared to put forward revised proposals, it being the only government that now has all the facts of the matter before it. In your letter to me you say that up to now you have been following the budget proposals, that they have proved the most practical method of making constructive progress, and that you do not see any ground for believing that greater progress could be made at a general conference now than was possible in May last. I should like to hope, however, that another conference, called to consider another set of proposals, framed in the light of the experience which the Dominion has had since May last, would produce good results.

Yours very truly,

A. L. MACDONALD.

CANADIAN NATIONAL TELEGRAPHS

OTTAWA, December 20, 1946.

The Honourable A. L. MACDONALD, P.C., M.L.A.,
Premier of Nova Scotia,
Halifax, N.S.

Your letter of the 18th instant *re* Dominion-Provincial negotiations was duly received by me yesterday morning and its representations were brought to the attention of my colleagues in Council yesterday afternoon. I regret there is nothing more I can say at the moment by way of acknowledgment. Kindest regards.

W. L. MACKENZIE KING.

THE PREMIER
HALIFAX

JANUARY 23, 1947.

Honourable D. C. ABBOTT, P.C., M.P.,
Minister of Finance,
Ottawa, Ont.

Dear Mr. ABBOTT,

In my letter of December 18 to the Right Honourable Prime Minister, I intimated that it was most important that all provinces should know "the full content, nature and extent" of any agreements, collateral or otherwise, made between the Dominion and any province. A copy of this letter was sent to you, and you will find the reference in the first full paragraph of the second page thereof. I think that it is of very considerable importance that provincial governments which have not yet come to any agreement with the Dominion should be fully informed on these points. It is not merely the per capita grant made to each province that enters into the picture here, but what I have already termed collateral agreements have to be considered. By collateral agreements I have specific reference to forgiveness of debts or readjustment of debts owed by certain provinces to the Dominion.

In a Canadian Press dispatch, date-lined Victoria, B.C., December 16, 1946, the following paragraph appears:

The Federal Government will write off \$8,000,000 in depression debts and re-finance \$26,000,000, permitting British Columbia to pay both principal and interest at \$1,124,675 annually. Previously, interest alone was costing \$1,020,000.

These press dispatches constitute the only source of information that I have as to the agreement made or proposed between the Dominion and British Columbia. It would seem to me that if British Columbia is permitted to re-finance \$26,000,000 on the terms mentioned, the transaction amounts to a virtual forgiveness of the debt. What it amounts to is that by paying \$104,000 more a year, British Columbia extinguishes both the principal and interest of a sum of \$26,000,000. This can only be regarded as a virtual extinguishment of a \$26,000,000 debt.

I do not know the exact nature of the proposals with regard to debt forgiveness or adjustment made to other provinces, and I do not wish to be taken necessarily as complaining of the terms offered to this or that province. What I do say, however, is that all of us should know the terms that have been granted to the others before we can begin to consider the question of an agreement. I do not mean that we should know each exact detail of the agreements made or proposed, but we should, I think, have before us the main amounts involved.

Yours very truly,

A. L. MACDONALD.

OFFICE OF THE MINISTER OF FINANCE
CANADA

OTTAWA, January 25, 1947.

Via Air Mail

Honourable ANGUS L. MACDONALD, P.C.,
Premier of Nova Scotia,
Halifax, N.S.

My Dear PREMIER:

I have your letter of January 23 in which you request information in regard to any so-called "collateral" agreements which may have been made recently between the Dominion and any province.

By "collateral" agreements you make it clear that you have in mind the proposed settlements relating to the Treasury Bill indebtedness of Saskatchewan and other Western Provinces to the Dominion, recently announced in the press. We do not regard these proposed settlements as in any sense "collateral" to the tax transfer agreements which have been under negotiation with the same provinces. It is perhaps unfortunate that they should have been announced at the same time as the other negotiations have been going on. The only reason for this is that at the Dominion-Provincial Conference the Government of Saskatchewan made it clear that it would wish to have a settlement of its Treasury Bill indebtedness to the Dominion before entering into a tax transfer agreement, in view of the possibility that otherwise the Dominion might, at some future time, apply the principle of "off-set" in such a way as to impair the financial position of the province.

Having reached agreement with Saskatchewan in respect of a proposed settlement to be recommended to Parliament at the forthcoming session, the Dominion felt it necessary to offer a similar basis of settlement to the three other provinces which were in the same position as Saskatchewan in that they had outstanding Treasury Bill indebtedness to the Dominion.

Perhaps I should add that the Treasury Bills in question were either one-year obligations or demand obligations and have had to be either repeatedly renewed or left outstanding from year to year, with only a very small amount of repayment. From our point of view one great merit of the proposed settlements is that they will require regular annual amortization of the debt and complete repayment over a reasonable period of years. We would have been very happy if we had been able to enter into this type of arrangement at any time in the last ten or more years.

In the case of Saskatchewan and Alberta, there was another complicating factor in the form of a counter-claim by the provinces against the Dominion. As you know, there had been appointed, in the early thirties, two Royal Commissions to inquire into questions relating to Dominion administration of the natural resources of these two provinces, and these Commissions had recommended that a payment of \$5,000,000, plus interest, should be made by the Dominion to each province. In the case of Saskatchewan, there was a minority report awarding some \$58,000,000 to the province. The Dominion Government offered to pay on the basis of claiming that a fair and reasonable settlement would require payment on the basis of the minority report. The claim of the province against the Dominion has, therefore, remained unsettled all these years. It is an essential part of the settlement now reached in connection with the Treasury Bill indebtedness of Saskatchewan that the Dominion Government will make payment to the province on the basis of the majority report of the Royal Commission and that the province will withdraw any claims it may have

for further payment. Furthermore, the proceeds of the payment made by the Dominion will be used to retire a proportion of the province's Treasury Bill indebtedness to the Dominion. A similar arrangement will be made in the case of Alberta as part of the settlement of that province's Treasury Bill indebtedness to the Dominion.

The general principles underlying the debt settlement with each of the four Western Provinces which the Dominion is prepared to recommend to Parliament at its forthcoming sessions, are as follows: (1) that part of the Treasury Bill indebtedness of the province which represents borrowing for purposes other than direct relief or agricultural relief is to be retired over a period of thirty years by an equal annual payment representing amortization of principal and interest at $2\frac{5}{8}$ per cent, which is approximately the cost of borrowing by the Dominion for a comparable period; and (2) half of that part of the total Treasury Bill indebtedness of the province which represents borrowing for direct relief and agricultural relief will be written off and the remaining half will be refunded on a basis requiring the retirement of the total amount by equal annual instalments over a period of thirty years without interest. In the case of Saskatchewan, the amount cancelled includes a certain amount of capitalized interest in respect of relief Treasury Bills.

I am attaching a table in which the amounts involved in the case of each province are set forth.

I am happy to give this information at this time in order that you may be fully familiar with the proposals. However, you will realize, I am sure that in the future, as in the past, there may well be financial dealings between the Dominion and individual provinces involving the relationship of debtor and creditor. In such cases it must be clear, I think, that the Dominion Government must be free to deal with them as it sees fit and be responsible to Parliament for any arrangements it may recommend.

Your very truly,

D. C. ABBOTT.

—	Manitoba	Saskatchewan	Alberta	British Columbia
	\$ cts.	\$ cts.	\$ cts.	\$ cts.
A. Total Treasury Bill Debt.....	24,734,451 82	80,441,852 44*	26,212,000 00	34,112,249 99
B. Treasury Bills for capital and ordinary gov't purposes, etc....	13,855,100 66	13,414,440 93	15,617,000 00	17,427,868 60
C. Treasury Bills for direct* and agricultural relief.....	10,879,351 16.	61,301,227 44	10,595,000 00	16,684,381 39
D. Amount to be cancelled—				
(1) Half of C.....	5,439,675 58	30,650,613 72	5,297,500 00	8,342,190 69
(2) Capitalized relief interest.....		5,726,184 07		
E. To be repaid in cash out of proceeds of Natural Resources Settlement (estimated).....		7,993,750 00	7,993,750 00	
F. Amount to be refunded without interest.....	5,439,675 58	30,650,613 72	5,297,500 00	8,342,190 69
G. Amount to be refunded with interest.....	13,855,100 66	5,420,690 93	7,623,250 00	17,427,868 60

* Excluding Treasury Bills covering seed grain loans refunded in 1945. Original amount \$16,468,852.49, amount presently outstanding \$10,605,541.48.

THE PREMIER
FREDERICTON

July 5, 1946.

Right Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa, Ontario.

Dear Mr. ILSLEY:

With further reference to your letter of June 27 I wish to advise you that the Government of New Brunswick has now had an opportunity to study the financial proposals advanced to the Provinces in your recent Budget Speech.

As was made evident in the discussions which took place during the recent Dominion-Provincial Conference this Government feels that it is in the interest of the people of this Province and as well in the national interest that new agreements be negotiated with the Dominion to take effect at the expiration of the existing Wartime Tax Agreements. We are prepared to enter into immediate negotiations with the Government of Canada with a view to concluding an agreement on taxation matters along the lines and upon the principles set out in your Budget Speech. Our representatives will proceed to Ottawa whenever convenient to you to discuss such matters.

We regret that it has been found necessary by the Dominion Government to limit its proposals to fiscal matters alone. The broad programme submitted to the Provinces last August held many attractions for us. We were in entire accord with the objectives of that programme which were the maintenance of a stable economy in Canada through steady and expanding employment, a high national income and social security plans calculated to benefit all Canadian in whatever Province they might live. In our view the public investment proposals and the social security measures included in that programme were of equal importance with the proposed financial arrangements.

While we recognize that it would be difficult to attempt to bring into operation many of the policies and measures embraced in the general programme outlined last August without the co-operation of all Provinces we do feel that in addition to the tax arrangements other features of that programme would lend themselves to separate implementation. The proposed Old Age Pensions scheme affords an instance of such.

However we are not pressing our views in that connection at the present time. We are altogether hopeful that all the Provinces may shortly have concluded new tax agreements with the Dominion. The way would then be open for a revival of discussions on the broader programme.

We desire to assure you now that we are prepared to enter into discussions on any such matters at any time.

Yours very truly,

JOHN B. McNAIR.

CANADIAN NATIONAL TELEGRAPHS

FREDERICTON, December 17, 1946.

Rt. Honourable W. L. MACKENZIE KING, P.C.,
Prime Minister of Canada,
Ottawa, Ontario.

My colleagues and I have to-day had under fresh consideration the financial and taxation arrangements which over a period of months have been under discussion with the Dominion Government. Those negotiations were conducted on the basis of proposals to the provinces advanced by Mr. Ilsley then Minister of Finance in the budget brought down by him in the House of Commons on June 27 last. They involved annual payments by the Dominion to the provinces computed on a uniform per capita allowance of fifteen dollars to be increased with increases in per capita gross national production over the 1942 level. Such proposals further provided that where in the case of any province the annual sum to be paid would on such calculations be less than one hundred and fifty per cent of that province's annual receipts under its wartime tax agreement such province would be paid the larger amount. It was known that this special provision was intended to meet the case of British Columbia and had no other application and further that British Columbia would on the basis of her wartime tax agreement receipts be paid during the term of any new agreement eighteen million one hundred thousand dollars and that her annual payments would remain at that level until such time as with the increase in her population and the application of the gross national production factor the fifteen dollar per capita allowance would produce for her an amount in excess of that figure. The budget proposals are to be found at page two nine nine five of nineteen forty-six unrevised *Hansard* where Mr. Ilsley stated that the annual payments from the Dominion were along the lines of the proposal made by the Dominion to the provincial premiers at the conference held two months earlier. He had reference to the recent Dominion Provincial Conference and to the revised proposals on financial arrangements which on April twenty-ninth last during its final plenary session were submitted on behalf of the Dominion Government by yourself. The budget proposals were accepted in principle at the time by the New Brunswick Government and formed the basis of subsequent negotiations with the Dominion. On their footing substantial progress towards agreement was made. A few points however were still unsettled the most important being an escape clause whereby the province could cancel the agreement at the end of any year should it so choose a provision which was included in our wartime tax agreement and has now assumed for us added importance. We are now compelled to reconsider our position in the light of the Dominion's new offer to British Columbia the substance of which was disclosed to me by Mr. Abbott your present Minister of Finance in Ottawa on Thursday last and details of which appear in to-day's newspapers. Apart from the special inducements held out to that province including assistance in the reduction of her public debt involving the cancellation by the Dominion of substantial sums owed her on advances made for direct relief and the refunding on a long term basis of other substantial sums similarly owed with complete cancellation of interest charges thereon the new terms offered British Columbia constitute a radical departure from all former proposals and contemplate still more preferential treatment for that province. They involve a per capita allowance in her case approximating twenty-one dollars against an allowance to New Brunswick of fifteen dollars both subject to be increased alike in accordance with increases in gross national production. This is an entirely different proposition from that enunciated by yourself at the conference and repeated by Mr. Ilsley in his budget speech. Throughout our negotiations it was clearly understood that no such changes

would be made without comparable adjustments for other provisions. We have no issue with British Columbia who is entitled to seek the best terms obtainable. We find it impossible however to understand the action of the Dominion Government in negotiating a deal entirely outside the ambit of the budget proposals without counterbalancing adjustments for other provinces. The present situation is entirely unacceptable to this Government. We will therefore treat our negotiations as suspended. When the Dominion Government sees fit to redefine and publicly restate to the provinces its financial proposals with assurances to safeguard them against such variable and discriminatory results we shall consider reopening discussions.

JOHN B. McNAIR,
Premier of New Brunswick.

CANADIAN NATIONAL TELEGRAPHS

OTTAWA, December 18, 1946.

Honourable J. B. McNAIR, K.C.,
Premier of New Brunswick,
Fredericton, N.B.

Your telegram re Dominion Provincial agreements was duly received by me this morning and its representations were brought to the attention of my colleagues in Council this afternoon. I regret there is nothing more I can say by way of acknowledgment. Kindest regards.

W. L. MACKENZIE KING

CANADIAN NATIONAL TELEGRAPHS

WINNIPEG, July 10, 1946.

Right Honourable J. L. ILSLEY, K.C.,
Minister of Finance,
Ottawa.

We have been giving careful consideration to your letter of June 27 enclosing a copy of your budget speech setting out your new proposal (stop) This proposal is not nearly as favourable to us as your modified proposal made in April which we accepted but which other provinces rejected and upon which the conference failed to agree (stop) Notwithstanding this fact it seems to us after nearly two weeks of exhaustive consideration that an agreement based upon your latest offer is more favorable to Manitoba than no agreement at all (stop) We therefore accept it in principle and will be glad to discuss with you the details of an agreement at the earliest mutually convenient date.

STUART GARSON.

OFFICE OF THE MINISTER OF FINANCE,
CANADA

OTTAWA, December 18, 1946.

Hon. S S. GARSON,
Premier of Manitoba,
Winnipeg, Man.

Dear Mr. GARSON:

I wish to confirm the information I gave to you in personal conference earlier this week in regard to a change which we are prepared to make in the original budget proposals insofar as they affect the Maritime Provinces, provided the suggested change is not objected to by the provinces which have already accepted the budget offer.

As you are aware, the Maritime Provinces have contended that the special annual subsidies paid to them as a result of the reports of the Duncan and White Commissions should be regarded as in a special category and should be paid to them in addition to the annual payments (including other statutory subsidies) of \$15 per capita adjusted for increases in gross national product per capita. The Dominion Government believes that to accept this suggestion as made would involve preferential treatment of the Maritime Provinces. On the other hand, it is obliged to admit a certain element of validity in the claim and for a reason which I will now explain.

The Prairie Provinces have been receiving and will continue to receive an annual subsidy in respect of their natural resources and as a result of the recommendations of three Royal Commissions, Manitoba has received, and Saskatchewan and Alberta have been offered, a capital sum payment representing compensation to the provinces in respect of their natural resources when the Dominion was administering these resources. Because these three provinces have received or will receive part of the payment due them in the form of a capital sum rather than an annual subsidy, only a proportion of the total payment due to them in respect of their natural resources as to be deducted as a statutory subsidy from the annual payment provided for in the Dominion's proposals.

To place the Maritime Provinces, in this respect, in a position of equality with the Prairie Provinces, approximately 30 per cent of the special annual subsidy payable to each of the Maritime Provinces as a result of the Duncan and White Commission recommendations should not be deducted from the proposed annual payments to them, as this is deemed to be the equivalent on an annual basis of a capital sum corresponding to the capital sum paid to the Prairie Provinces in respect of their natural resources. The Dominion has therefore expressed to the Government of each of the three Maritime Provinces its willingness to agree that 30 per cent of these special annual subsidies should not be deducted from the proposed annual payments to these provinces.

The annual subsidies paid as a result of the Duncan and White Commission reports and the 30 per cent which would be paid under this proposal are as follows:

—	Total White Commission Subsidies	30 per cent
	\$	\$
Prince Edward Island.....	275,000	82,500
Nova Scotia.....	1,300,000	390,000
New Brunswick.....	900,000	270,000

I have, of course, made it clear to the governments of the provinces concerned that this proposal is subject to the consent of the provinces which have already accepted the budget offer. I would therefore appreciate it if you would let me know as soon as possible whether your Government objects to the suggested change.

Yours very truly,

D. C. ABBOTT.

OFFICE OF THE MINISTER OF FINANCE
CANADA

OTTAWA, December 19, 1946.

The Honourable S. S. GARSON,
Premier of Manitoba,
Winnipeg, Manitoba.

Dear Mr. GARSON:

You have asked me to confirm the information which I gave to you in our personal conferences in Ottawa earlier this week, regarding the adjustment proposed by Premier Hart in the formula for determining the annual payment to British Columbia under the Dominion-Provincial tax agreement.

This proposed adjustment would provide for increases in annual payments above the guaranteed annual minimum of \$18,072,000, in accordance with increases, since 1942, in population of the province and gross national product per capita. It would be necessary to make a similar provision in the case of Prince Edward Island.

The effect of such an adjustment would be to give to these two Provinces the benefit arising from any increases since 1942 in population and gross national product, based upon their respective guaranteed minimum payments. In the case of other provinces which have selected or may select the option based on a minimum of \$15 per capita of 1941 or 1942 population, there is an automatic benefit under the terms of the budget offer from similar increases in population and gross national product.

As an essential element of the Dominion's proposals was to ensure not only stability but a measure of flexibility to provincial revenues, to enable the Provinces to meet possible changes in conditions such as a rapid increase in population, it was felt by the Dominion that it would be hardly fair to tie British Columbia, which is experiencing the most rapid increase in population of any province, to a rigid minimum which, on the basis of present estimates, would be likely to determine, over several years, the annual payments to the province.

The main reason, however, for the willingness of the Dominion Government to conclude an agreement with British Columbia on this adjusted basis was the desire, if at all possible, to reach agreements, without too great delay, with all the provinces, so that early progress might be made in achieving the wider objectives of social security and public investment set out in the Dominion proposals of August, 1945.

It was, of course, understood with Premier Hart that an agreement based upon the proposed adjustment in the formula for the calculation of the annual payments would be conditional upon the Provinces of Manitoba, Saskatchewan and New Brunswick, which had already accepted the budget proposals, proceeding to conclude agreements. It will be appreciated, therefore, that by

reason of this understanding it is the attitude which may be adopted by these three provinces which will determine whether or not an agreement with British Columbia is concluded.

I am forwarding a copy of this letter to Premier McNair and Premier Douglas.

Yours very sincerely,

D. C. ABBOTT.

CANADIAN NATIONAL TELEGRAPHS

WINNIPEG, January 7, 1947.

The Hon. DOUGLAS ABBOTT,
Minister of Finance,
Ottawa, Ont.

I handed to the press yesterday a statement as follows quote Manitoba, Saskatchewan and New Brunswick in their negotiations with the Dominion Government were protected by the latter's assurance that if it were considered necessary in a later agreement to accord more favourable treatment to other Provinces, such more favourable treatment, or its equivalent, would be extended to those Provinces which had already reached an agreement—the Dominion in our opinion should call in Manitoba, Saskatchewan, and New Brunswick and if necessary British Columbia and Prince Edward Island to discuss the manner in which the position of these three Provinces should be equalized with that of British Columbia and Prince Edward Island under their new deal with the Dominion—any concessions that the Dominion may make to achieve this equalization should at once be publicly announced as available on an equitable basis to all of the Provinces of Canada (unquote) may I strongly urge that you give consideration to this statement as a request of the Manitoba Government and if it is at all possible for you to do so act upon it at the earliest opportunity—

STUART GARSON, Premier of Manitoba.

OFFICE OF THE PREMIER
PROVINCE OF BRITISH COLUMBIA

VICTORIA, July 10, 1946.

The Honourable J. L. ILSLEY, K.C.,
Minister of Finance,
Ottawa, Ontario.

Dear Mr. ILSLEY:

I have for acknowledgment your letter of June 27 together with a copy of your budget address enclosed therewith.

Please be advised that our officials are now making an exhaustive study of your proposals so that I may be prepared at a later date to discuss same with you.

Yours faithfully,

JOHN HART.

PREMIER'S OFFICE
PRINCE EDWARD ISLAND

CHARLOTTETOWN, July 5, 1946.

The Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa, Canada.

Dear Mr. ILSLEY:

In reply to your telegram and letter of June 27 the Government of Prince Edward Island wishes to enter into negotiations with the Government of Canada with a view to concluding an agreement along the lines set out on page 48 of the Proposals of the Dominion of Canada of August, 1945.

"The third requirement of post-war financial arrangements is that they should make possible at least an adequate minimum standard of services in all Provinces, while not denying to any Province the advantages which its resources give to it nor the freedom to establish its own standards.

"The fourth requirement is that the Dominion-Provincial financial arrangements must be such as to strengthen, not weaken the federal system established in our constitution. They must be such as will give the provincial governments a dependable financial basis on which to operate and assure them of freedom to make the decisions for which they are responsible, independently of the Dominion."

I read with much interest the statement made by you in your Budget Speech wherein you stated:—

"The net effect would have been to put all provincial governments in a much stronger and more stable fiscal position than they had ever enjoyed before or than there was any prospect of their achieving in a return to the general free-for-all of pre-war."

Anticipating the pleasure of conferring with you in Ottawa, I remain

Yours very truly,

J. WALTER JONES.

OFFICE OF THE MINISTER OF FINANCE

CANADA

OTTAWA, July 11, 1946.

The Honourable J. WALTER JONES, M.L.A.,
Premier of Prince Edward Island,
Charlottetown, Prince Edward Island.

Dear Mr. JONES,—

I refer to your letter of July 5 concerning the budget proposals for Dominion-Provincial tax agreements.

You state in your letter that your Government "wishes to enter into negotiations with the Government of Canada with a view to concluding an agreement along the lines set out on page 48 of the Proposals of the Dominion of Canada of August 1945."

There seems to be some misunderstanding. The proposals for Dominion-Provincial tax agreements referred to in my letter of June 27 which we are now prepared to discuss with provincial governments, are those contained in my budget address of that day and not those submitted to the Conference of last August. As you know, it has not been possible to reach general agreement on

the basis of the August proposals and consequently we have prepared the modified proposals which were announced in my budget address. We hope that these will be generally acceptable but, as was pointed out, they are wholly optional.

I should be grateful if your Government would give consideration to the new tax agreement proposals contained in my budget address of June 27 and I would be glad to discuss them with you at any mutually convenient date.

Yours very truly,

J. L. ILSLEY.

PREMIER'S OFFICE

PRINCE EDWARD ISLAND

CHARLOTTETOWN, July 16, 1946.

The Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa, Canada.

Dear Mr. ILSLEY:

In reply to your letter of July 11 on the budget proposals for a Dominion-Provincial Tax Agreement, our Provincial Treasurer and his Deputy are now on their way to Ottawa by car for preliminary discussions on the agreement. They should arrive Thursday or Friday morning, and we hope your officials can meet them and hear their proposals.

Yours very truly,

J. WALTER JONES.

OFFICE OF THE MINISTER OF FINANCE

CANADA

OTTAWA, December 16, 1946.

The Honourable WILLIAM HUGHES,
Provincial Secretary-Treasurer and
Minister of Public Welfare,
Charlottetown, P.E.I.

Dear Mr. HUGHES:

During your recent visit to Ottawa you discussed with my predecessor, the Right Honourable J. L. ILSLEY, the application to your province of the proposals made to the provinces in the budget of June 27 last.

Amongst other things, you pointed out that unless the increase in the gross national product was very large indeed your province would not receive more than its guaranteed minimum payment of \$2 million and that, if you were restricted to that minimum, you would not be able, at least after the first or second year of the term of the agreement, to take care of the budgetary requirements of your province without running a deficit. As you know, Mr. ILSLEY was impressed with the facts you presented and the arguments you advanced and we have therefore canvassed with great thoroughness ways and means of meeting the minimum requirements of your province within the spirit of our budget proposals. As a result of our consideration of the matter, I am now in a position to advise you of certain changes we are making and steps we are taking which I think should solve your problem.

In the first place, we are prepared to suggest that the so-called escalator clause which applies in the case of other provinces should be applied to the special minimum of \$2 million which applies in the case of your province as

well as to the corresponding minimum of 150 per cent of the wartime tax agreement receipts which is the most favourable option for British Columbia.

In the case of your province, therefore, section (2) of clause 1 of the draft agreement would be amended to read substantially as follows:

(2) The amount referred to in sub-paragraph (b) of paragraph one of this clause shall be calculated by ascertaining the average of amounts for each of the three calendar years immediately preceding the fiscal year in respect of which payment is to be made thereunder, the amount for each such calendar year being either

(a) the amount of \$2,000,000 or

(b) the amount that is the product of

(i) the population of the Province of Prince Edward Island for that calendar year

multiplied by

(ii) an amount that bears the same ratio to \$2,000,000 divided by the population of Prince Edward Island in 1942 as the value of the gross national product per capita in that calendar year bears to the value of the gross national product per capita in the calendar year 1942.

whichever is greater.

I am enclosing for your information an illustrative calculation based on tentative estimates of population and gross national product, which indicates that the payment that would be made to Prince Edward Island in the first year of the agreement would be in the neighbourhood of \$2,177,000. You will realize, of course, that the figures for 1945 and 1946 are not as yet finalized and that the above amount can only be advanced as a reasonably close illustration of the effect of the proposal.

In the second place I am glad to advise you that consideration has been given by the Government to the special situation existing in the Maritimes in respect of the Duncan and White Commission reports and the annual subsidies which were paid to the Maritimes as a result of them. The Duncan and White Commission recommendations were in part based on the claims of the Maritime Provinces for compensation for the territorial expansion enjoyed by Ontario, Quebec and Manitoba, and for the payments made in respect to natural resources to the three prairie provinces. The position of the Maritime Provinces, of course, precluded similar advantages being made available to them and a portion of the special subsidy provided following the recommendations of the Duncan and White Commissions was determined with the intention of putting the Maritime Provinces on a basis of equality with the other provinces. In particular, Manitoba has received, and Saskatchewan and Alberta have been offered, a capital sum payment representing compensation for loss of revenue to those provinces in respect of their natural resources during the period when the Dominion was administering these resources. This sum is in addition to the annual payments made to these provinces in respect of their natural resources which is included in the annual payment to them provided for in the Dominion's budget proposals. To place the Maritime Provinces in a position of equality with the prairie provinces in this respect, approximately 30 per cent of the special annual subsidy payable as a result of the White Commission recommendations should not have to be deducted from the annual payments now proposed. Therefore the Dominion is prepared to agree that 30 per cent of the White Commission annual subsidy to Prince Edward Island, or \$82,500, should not be deducted from the proposed annual payments to Prince Edward Island, as this is deemed to be the equivalent of a capital sum corresponding to the capital sum paid to the prairie provinces

in respect of their natural resources. It should be noted that any higher percentages would be unjustified since it would involve giving preferential treatment to three provinces.

This last proposal relating to the White Commission awards is, of course, subject to the consent of the provinces which have already accepted the budget offer and I am getting in touch with them for this purpose.

Finally, with regard to another matter which was touched on briefly with you in the previous discussions, I wish to bring to your attention the enclosed announcement which will have been made public by the time you receive this letter and which declares the Dominion government's intention to withdraw its three cents per gallon tax on gasoline sales as from April 1 next. The removal of this Dominion tax will leave the province free, if it chooses to do so to impose a corresponding increase in its own gasoline taxes and thus secure a fairly substantial additional amount of provincial revenue. The gasoline tax is by far the most important of the minor taxes which certain provinces were anxious that the Dominion should relinquish and this withdrawal will mean a considerable loss of revenue to the Dominion Treasury. With respect to other minor taxes, we continue to be willing, as announced at the May Conference, to withdraw from the field of taxes on amusements and pari-mutuel bets, if all provinces enter the agreement and agree amongst themselves on satisfactory compensation to the Dominion Treasury for the loss of revenue.

I trust that it will be apparent that your representations have been weighed and considered most carefully and sympathetically. It is the hope of the Dominion Government that the Government of Prince Edward Island will feel that it would not be justified in concluding negotiations with the Dominion.

Yours sincerely,

D. C. ABBOTT

P.S. It must, of course, be understood that the alteration in the formula for calculation of the annual payments is conditional upon the other provinces which have already accepted the budget proposals proceeding to conclude agreements.

PRINCE EDWARD ISLAND

Tentative Estimate of Probable Gross Payment to P.E.I. in 1947 (subject to stipulated deductions)

Basic Figures

Year	P.E.I.'s Population (000)	Dominion Population (000)	G.N.P. (\$000,000)	G.N.P. (1) per capita	Per cent of 1942 (1)
1942.....	90	11,654	10,296	883.50	100.0
1944.....	91	11,975	11,771	983.00	111.3
1945 ⁽²⁾	92	12,125	11,359	936.80	106.9
1946 ⁽³⁾	94	12,316	11,000	893.10	101.1

Calculation for P.E.I. (Figures to nearest thousand)

$$(2,000,000 \times \frac{\text{per capita G.N.P. for each year}}{\text{per capita G.N.P. 1942}} \times \frac{\text{provincial population for each year}}{\text{provincial population for 1942}})$$

Minimum payment—\$2,000,000

Calculation re 1944—\$2,251

“ “ 1945—\$2,167

“ “ 1946—\$2,112

Estimated payment for 1947 (average 1944-46)—\$2,177

(1) To one decimal place.

(2) Preliminary D.B.S. estimate.

(3) Informal estimates made in collaboration with D.B.S. but not official.

PROVINCIAL TREASURER

PRINCE EDWARD ISLAND

Charlottetown, December 20, 1946.

Honourable D. C. ABBOTT, K.C.
 Minister of Finance,
 Ottawa, Ont.

Dear Mr. ABBOTT,

This is to confirm our telephone conversation of the 19th instant when I intimated to you the decision of the Government of the Province of Prince Edward Island with reference to the latest proposal of the Federal Government.

Our Government has viewed with sympathetic interest the efforts of the Dominion to arrive at satisfactory agreements with all the Provincial Governments and it is with the hope that such over-all agreement will soon be reached that the Province of Prince Edward Island is now accepting and will sign as available the agreement as now amended.

Our Government, to be specific, is accepting the tentative agreement given to us on November 19, 1946, with the amended terms as put forward in your letter to me of December 16, 1946.

I wish to express appreciation of your sympathetic consideration of our representations.

Yours sincerely,
 WILLIAM HUGHES.

OFFICE OF THE MINISTER OF FINANCE

CANADA

OTTAWA, December 23, 1946.

Dear Mr. HUGHES:

Thank you for your letter of December 20, which I received to-day.

I am pleased to learn that your Government is prepared to accept the tentative agreement given you on November 19, 1946, with the amended terms put forward to you in my letter of December 16, 1946.

You appreciate, of course, that the amendments put forward in my letter of December 16 are contingent upon the three Provinces, which had already accepted the budget proposal, being willing to agree to the modifications suggested.

Yours truly,
 D. C. ABBOTT.

The Honourable WILLIAM HUGHES, M.L.A.,
 Provincial Treasurer,
 Charlottetown, P.E.I.

CANADIAN NATIONAL TELEGRAPHS

CHARLOTTETOWN, P.E.I.,
 January 7, 1947.

Rt. Hon. W. L. MACKENZIE KING,
 Prime Minister,
 Ottawa.

I suggest that five provinces which have made agreements should get together at once and review the agreements made and adjust them to their mutual satisfaction with the concurrence of your government.

J. WALTER JONES,
Premier.

OFFICE OF THE PRIME MINISTER
CANADA

OTTAWA, January 8, 1947.

The Honourable J. WALTER JONES, M.L.A.,
Premier of Prince Edward Island,
Provincial Building,
Charlottetown, P.E.I.

My Dear PREMIER:

I duly received your telegram suggesting that the five provinces which have made agreements should get together at once and review the agreements made, and adjust them to their mutual satisfaction with the concurrence of the Dominion Government.

I shall be pleased to see that careful consideration is given to this suggestion.

Yours sincerely,

W. L. MACKENZIE KING.

CANADIAN NATIONAL TELEGRAPHS

REGINA, June 28, 1946.

The Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa, Ontario.

Am extremely pleased that you have signified willingness of federal government to enter into separate agreement with provinces (stop) Will place your proposal before my colleagues at once and inform you in the course of a few days of their decision.

T. C. DOUGLAS.

CANADIAN NATIONAL TELEGRAPHS

REGINA, Sask., June 29, 1946.

Hon. J. L. ILSLEY:
Minister of Finance,
Ottawa.

Saskatchewan Government at special cabinet meeting to-day agreed to accept in principle the proposals re Dominion-Provincial tax Agreement as outlined in your Budget Address and desire to enter into negotiations with federal government immediately stop we regret that social security proposals respecting health, old age pensions, public investment and unemployment are not included stop we are desirous of entering into further negotiations on these matters and urge that steps be taken immediately to work out arrangements to establish social security on national basis.

T. C. DOUGLAS.

PREMIER'S OFFICE

SASKATCHEWAN

REGINA, July 2, 1946.

Honourable J. L. ILSLEY,
Minister of Finance,
Ottawa, Canada.

Dear Mr. ILSLEY,

Thank you very much for your telegram of June 27, your letter of the same date and copy of your budget speech. On June 29 I sent you a wire as follows:

Saskatchewan government at special cabinet meeting today agreed to accept in principle the proposals re Dominion Provincial Tax Agreement as outlined in your budget address and desire to enter into negotiations with federal government immediately stop we regret that social security proposals respecting health old age pensions public investment and unemployment are not included stop we are desirous of entering into further negotiations on these matters and urge that steps be taken immediately to work out arrangements to establish social security on national basis.

I would appreciate knowing when it would be convenient to begin negotiations with a view to signing an agreement between the Federal Government and the Government of Saskatchewan.

I believe Mr. Fines, our Provincial Treasurer, discussed with you the matter of the treasury bills outstanding and I notice that in your budget address you made reference to an agreement covering this point.

Mr. Fines and I will be prepared to come to Ottawa to discuss these matters and complete the agreement at whatever date would be convenient to you. Trusting you will give us immediately an approximate idea when this will be.

I remain,

Yours sincerely,

T. C. DOUGLAS.

CANADIAN NATIONAL TELEGRAPHS

REGINA, Saskatchewan, July 12, 1946.

Right Hon. W. L. MACKENZIE KING,
Ottawa.

Saskatchewan Government concerned about fact that Dominion Provincial plans re public investment, education, health, old age pensions and other security measures all left at loose ends since federal government's budget proposal deals only with taxation agreement. Therefore urge reconvening of Dominion Provincial Conference in order to work out social security plans on national basis. Plans of Saskatchewan government being held pending clarification of federal government's intentions in this regard.

T. C. DOUGLAS.

CANADIAN NATIONAL TELEGRAPHS

OTTAWA, July 15, 1946.

Hon. T. C. DOUGLAS, M.L.A.,
 Premier of Saskatchewan,
 Regina, Saskatchewan.

Your telegram July twelfth regarding Dominion-Provincial Relations received. The Dominion Government shares your regret that it has not been possible to include in the Dominion offer made in the budget the earlier proposals relating to public investment and social security. However, as emphasized in the budget address, the public investment and social security proposals submitted last August remain an essential part of the Dominion Government's programme. As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals. The Dominion proposals to the conference last August were submitted in the earnest hope that general agreement could be reached on a comprehensive programme of tax reform, public investment and social security measures which would strengthen the working of our federal system and promote the prosperity and welfare of the nation as a whole. These proposals were discussed at four conferences extending over nine months. Important modifications were made by the Dominion on several occasions in an effort to facilitate general agreement. As you know such general agreement was not possible because of the difference in points of views and interests between various provinces and between one or two provinces and the Dominion. We are faced with the immediate necessity of adjusting our wartime tax structure to the needs of the postwar period. The wartime tax agreements with three of the provinces will expire within a few months and all will have expired by next spring. Unless new tax agreements can be worked out speedily a harmful and chaotic tax situation is likely to arise. The interim proposals announced by the Minister of Finance are therefore offered so that certain essential steps can be taken immediately. Action is necessary now both to avoid competitive taxation and to make it possible for the provinces to deal with their budgetary problems when the wartime tax agreements expire. We are prepared to commence discussion at once with those provinces which wish to enter into the interim agreement and as you know a meeting between the Minister of Finance and the Government of Saskatchewan has already been arranged for July twenty-second.

W. L. MACKENZIE KING.

PREMIER'S OFFICE

SASKATCHEWAN

REGINA, November 13, 1946.

Right Honourable W. L. MACKENZIE KING, P.C.,
 Prime Minister of Canada,
 Ottawa, Canada.

My Dear PRIME MINISTER:

Mr. Alex Skelton has been kind enough to forward to me copies of correspondence between yourself and some of the Provincial Premiers regarding the advisability of reconvening the Dominion-Provincial Conference.

The Saskatchewan Government takes the position that while there can be no value in further discussion of the Dominion-Provincial tax agreements for

reasons which are now obvious, we do feel that the Dominion-Provincial Conference should be reconvened as quickly as possible in order to facilitate some agreement in matters of social security, unemployment, health insurance and old age pensions. The various proposals under the heading of Public Investment are particularly in need of clarification in order that a plan may be drawn up and specific undertakings made with a view to being prepared against any economic disturbance which might arise.

It is now over a year since the Dominion Government issued a very comprehensive set of proposals at the first meeting of the Dominion-Provincial Conference. In consequence of these proposals a number of social security measures have been held in abeyance pending some definite agreement. It is becoming increasingly apparent, however, that these matters cannot be delayed indefinitely. The Saskatchewan Government feels that it should be possible to find certain minimum services at least on which all the provinces and the Federal Government could agree to proceed. We feel that further delays are courting disaster and for that reason are most urgent that a Dominion-Provincial Conference should be reconvened, not for the purpose of discussing Dominion-Provincial tax agreements, which some of the provinces appear to find completely unacceptable, but in order to discuss matters on which it may be possible even yet to find some measure of agreement.

Yours sincerely,

T. C. DOUGLAS.

OFFICE OF THE PRIME MINISTER

CANADA

OTTAWA, November 22, 1946.

The Honourable T. C. DOUGLAS, M.L.A.,
Premier of Saskatchewan,
Regina, Saskatchewan.

Re: Dominion-Provincial Conference

My Dear PREMIER:

I duly received your letter of November 13 urging that the Dominion-Provincial Conference be reconvened to consider questions relating to social security and public investment.

In your letter you make it clear that the Saskatchewan Government is of the opinion that there would be no object in reconvening the Conference to discuss Dominion-Provincial tax agreements. That view, as you are aware, accords with the position already taken by my colleagues and myself.

On several occasions the position of the Dominion Government has likewise been made clear as regards reconvening the Conference to discuss other matters. Our view is that no substantial progress could be anticipated in a general conference until the positions of all the provinces with respect to tax agreements have been clarified.

The practical difficulties of attempting to hold a general conference while discussions are still proceeding with certain of the provincial governments will be obvious. Moreover until it is known which provinces intend to conclude tax agreements, it will not be possible for the Dominion Government to know exactly what its own position is likely to be. Substantial and, I believe, mutually satisfactory progress is being made towards this end.

My colleagues and I feel that the Dominion Government should adhere to the position set out in my telegram to you on July 15 last, in the following words:

"The Dominion Government shares your regret that it has not been possible to include in the Dominion offer made in the Budget the earlier proposals relating to public investment and social security. However, as emphasized in the budget address, the public investment and social security proposals submitted last August remain an essential part of the Dominion Government's programme. As soon as there is a sufficient acceptance of the proposed tax agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals.

Yours sincerely

W. L. MACKENZIE KING.

CANADIAN NATIONAL TELEGRAPHS

REGINA, January 7, 1947.

Hon. D. C. ABBOTT,
Minister of Finance,
Ottawa, Ont.

Saskatchewan government urges dominion to call conference with New Brunswick, Manitoba, and Saskatchewan to discuss proposed taxation agreements in light of new dominion proposals to Maritimes and British Columbia.

C. M. FINES,
Provincial Treasurer.

OFFICE OF THE PREMIER

ALBERTA

EDMONTON, July 11, 1946.

Rt. Hon. J. L. ILSLEY,
Minister of Finance,
Ottawa, Canada.

Dear Mr. ILSLEY:

My colleagues and I have given careful study to the copy of the Budget Speech which your forwarded to me and in which you outlined the offer that the Government of Canada is making to each of the Provinces with respect to a new Tax Agreement to take the place of the present wartime Tax Agreement.

The magnitude and importance of this matter is such that we are not in a position to indicate either acceptance or rejection of your offer until a number of important points have been clarified. It is reasonable to assume that other Provinces are in a similar position and we would therefore respectfully urge that the Dominion-Provincial Conference be reconvened for the purpose of affording a thorough discussion of the ramifications involved in your proposal to enter into separate agreements with individual Provinces on the basis outlined in your Budget address. It appears to us that only by a frank round table discussion of your Budget proposal can the present confused picture be clarified and the Provinces enabled to ascertain definitely just what their respective positions will be if they do, or do not, enter into an agreement of the nature you propose.

While the factors involved are too numerous to be dealt with by correspondence, there are several outstanding points on which we consider it particularly important to obtain clarification. In outlining your offer to the Provinces you state that the Dominion has been forced to abandon, temporarily at least, its proposals with respect to social services and public investment. Does this mean that during the next five years the Dominion is not prepared to give any assistance to the Provinces in improving old age pensions and providing public health services, etc., or does it mean only that the Dominion has abandoned the program set out in its former proposals but is prepared to consider some other arrangement in these fields in its dealings with individual Provinces?

In the matter of public investment, if the Dominion has abandoned the public works proposals contained in its submission to the Dominion-Provincial Conference, how far does it propose to go in assuming at least a portion of the cost of inter-provincial highways, irrigation projects and other undertakings of a nature which makes them obviously more than purely local provincial responsibilities?

In the matter of unemployment assistance, if the Dominion is abandoning its proposals with respect to unemployed employables, to what extent is it prepared to assume the burden of unemployment assistance which obviously will be greater than any Province could bear out of its own resources if unemployment develops on a large scale within the next five years.

Another factor which we consider pertinent to an intelligent decision in this matter is the Dominion's future intentions in the fields of personal income tax and corporation tax. The financial value of these fields to any Province depends very largely on the rate of taxation which the Dominion proposes to maintain in those fields. Unless we have some indication of the Dominion's intentions in this respect, we fail to see how we can appraise the value to the Province of your offer as compared with the Province re-entering those fields of taxation.

There is also the matter of provision for the termination of the proposed new Agreement. The present wartime Tax Agreement provides that the Province may terminate the Agreement on the 31st day of March in any year by giving 30 days notice. Are we correct in assuming that this same provision will be embodied in the proposed new Agreement? This, to us, is a very important point in view of the extended term of the proposed Agreement and the impossibility at this stage of anticipating accurately for five years in advance the value of the fields of revenue which we are asked to give up in exchange for the Dominion's per capita grant.

These are but a few of the more important matters which we feel should be thoroughly discussed at a joint meeting of Dominion officials and representatives of all the Provinces. I sincerely hope that you will agree to this procedure which we believe will be in the best interests of all concerned. Meanwhile, I would appreciate any information which you can provide, at this stage, on the points which I have mentioned above.

Yours very truly,
ERNEST C. MANNING,
Premier.

MINISTER OF FINANCE

CANADA

OTTAWA, July 15, 1946.

Honourable E. C. MANNING,
 Premier and Provincial Treasurer,
 Province of Alberta,
 Edmonton, Alberta.

Dear Mr. MANNING:

I refer to your letter of July 11 concerning the proposed new tax agreements which were announced in my Budget Address.

In reply to the matters raised in the first five paragraphs of your letter, I wish to assure you that we have not abandoned our comprehensive proposals of last August with respect to public investment and social security. How far and how quickly we can go in the realization of these objectives is, however, dependent upon the progress that can be made regarding the proposed new tax agreements. Our position in this respect is fully set out in the Prime Minister's telegram to Premier Douglas, a copy of which is enclosed.

You ask about the Dominion's future intentions in the fields of personal income tax and corporation tax. Our tax rates in these fields will, of course, depend upon the extent of the responsibilities we shall have to carry. It is our objective to follow such fiscal and other policies as will promote, with the co-operation of the provincial and other governments and industry, the achievement of high levels of employment and welfare. In order to accomplish this result tax rates cannot be held at any predetermined and fixed levels but will have to be flexible and suitably related to economic circumstances as they unfold. What tax policies or expenditures will be most appropriate in the future will depend on economic conditions as they develop from year to year. It would be lacking in responsibility to endeavour now to foretell what they should be.

With reference to the provision for the termination of the proposed new agreements, we had thought that it would be desirable for both sides to have a fixed and definite term, namely five years. Otherwise it might be difficult for either the Dominion or the provinces to plan and carry out their fiscal and other programs effectively and with a consistent purpose over the next few years. However, we are prepared to discuss the pros and cons of this question with you and the other provinces with a view to determining what would be the best in this regard.

Yours sincerely,

J. L. ILSLEY.

OFFICE OF THE PREMIER

ALBERTA

EDMONTON, October 8, 1946.

Right Honourable W. L. MACKENZIE KING,
 Prime Minister of Canada,
 Ottawa, Canada.

My Dear PRIME MINISTER:

On July 11 I wrote to the Honourable Mr. Ilsley, following his Budget Address, seeking additional information on certain points concerning the proposed new Tax Agreements contained therein, and urging that the Dominion-Provincial Conference be resumed for a round table discussion of the situation as it now stands in the light of the budget proposals. Mr. Ilsley, in reply, dealt with the matters on which I had requested further information but did not

indicate whether or not the Dominion Government is prepared to consider reconvening the Conference other than to provide me with a copy of your telegram of July 15 to Premier Douglas of Saskatchewan in which you advised that "As soon as there is a sufficient acceptance of the proposed Tax Agreements we shall be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals".

My colleagues and I have given much thought and careful study to the existing situation, not only as it affects our provincial economy but also from the standpoint of the best interests of Canada as a whole. We are forced to the conclusion that the present procedure of dealing separately with individual Provinces on the basis proposed in Mr. Ilsley's Budget Address cannot but complicate still further the unfortunate situation that developed at the last session of the Dominion-Provincial Conference. It affords no opportunity to deal successfully with the major points of disagreement upon which the Conference collapsed and this, together with the fact that so few of the Provinces had felt that they could conclude an agreement on the basis proposed, presents a situation which must be as unsatisfactory to your Government as it is to the majority of the Provinces.

The Provinces have had time to analyse the effect of the budget proposals on their economy and your officials have had an opportunity to give further consideration to the submissions made by the Provinces during the sessions of the Conference and the Co-ordinating Committee. The situation has matured to the extent that it is reasonable to assume that a combined effort at this stage to reach mutual agreement would meet with success.

In the light of these circumstances and because of the paramount importance of working out new agreements generally satisfactory to all Governments, I am making this personal appeal to you, as head of the Government of Canada, to reconsider the present procedure and to make one more effort to arrive at a mutually acceptable arrangement by a further round table conference of your Government and all the Provinces. In making this earnest request I am well aware of the difficulties entailed, but, in a matter which so vitally concerns the welfare of the people of Canada as a whole, there surely should, and must be, sufficient of the spirit of compromise and willingness to give and take, to make possible at least a generally acceptable interim agreement while something more permanent is being worked out.

Insofar as the Government of Alberta is concerned, we are willing and anxious to do anything we can to facilitate the consummation of an interim agreement, mutually satisfactory to the Dominion and the Provinces.

I will be glad to come to Ottawa to discuss any aspects of this matter with you or any of your colleagues, if it will, in any way, assist in getting this matter settled without further delay and in a manner generally satisfactory to all.

Yours very truly,

ERNEST C. MANNING.

OFFICE OF THE PRIME MINISTER

CANADA

OTTAWA, October 14, 1946.

Honourable E. C. MANNING, M.L.A.,
 Premier of Alberta,
 Edmonton, Alberta.

My Dear PREMIER:

I duly received your letter of October 8 in which you asked me, as head of the government of Canada, to reconsider the present procedure in regard to reaching financial agreements with the provinces, and to make one more effort to arrive at a mutually acceptable arrangement by a further round table conference of the Dominion government and all the provincial governments.

Before your letter was received, the government had already given careful and exhaustive consideration to a request from the Premier of Ontario that the Dominion-Provincial Conference should be reconvened at an early date. You will already have received from the Secretary of the Co-ordinating Committee copies of the correspondence between Mr. Drew and myself in this connection. In replying to your letter, I am not limiting myself to a reference to that correspondence because there are certain differences between the position taken in your letter and that taken by the Premier of Ontario.

You state that, in an earlier letter to the Minister of Finance, you had urged that "the Dominion-Provincial Conference be resumed for a round table discussion of the situation as it now stands in the light of the budget proposals". This statement would appear to imply that the budget proposals made by the Minister of Finance on June 27 would be accepted by the Province of Alberta as a point of departure for such a discussion. You will observe that no such indication has been given in the communications received from the Premier of Ontario. I have, accordingly, indicated to Mr. Drew that, in the view of the Dominion government, it is not unreasonable to expect the Provincial governments to indicate their attitude towards these proposals before further consideration is given to the resumption of the sessions of the Conference.

You state further that the Government of Alberta is "forced to the conclusion that the present procedure of dealing separately with individual provinces on the basis proposed in Mr. Ilsley's Budget Address, cannot but complicate still further the unfortunate situation that developed at the last session of the Dominion-Provincial Conference". My colleagues and I find ourselves unable to accept this view. The Budget proposals were made precisely because, after nine months of Conference, it was not found possible, in time to replace the Wartime Tax Agreements on their expiry, to reach a general agreement acceptable in its broad lines to all the provinces. The Minister of Finance accordingly prepared a Budget which, on the expiry of the existing tax agreements, would operate equitably both in the provinces with which new agreements were reached and in those provinces which preferred not to enter into new agreements. The purpose of the budget proposals was to simplify and expedite the conclusion of agreements, with those provinces, at least, which felt that tax agreements were essential to the effective maintenance of provincial services.

Parliament having enacted the legislation necessary to make the provisions of the budget in this respect operative, the holding of another general Conference would inevitably complicate and delay the reaching of tax agreements, since the only purpose of a Conference would be to consider alternative proposals which, in turn, would have to be placed before Parliament for approval.

Moreover, since the Dominion government announced its budget proposals, certain provinces have, as you know, entered, in good faith, into negotiations for new tax agreements, and the Dominion government has thereby incurred an obligation to give priority to such negotiations.

You state that "the situation has matured to the extent that it is reasonable to assume that a combined effort at this stage to reach mutual agreement would meet with success". Since two or three of the provincial governments have so far given no definite indication of their attitude to the budget proposals, and since they have made no counter-proposals, the Dominion government has no concrete evidence to suggest that the prospect of an agreement in a general Conference is greater now than it was in April and May. In the circumstances, my colleagues and I feel we have no choice but to adhere to the position set forth in my letters to the Premier of Ontario in these words: "Once satisfactory financial relationships have been agreed upon, the Dominion government will be prepared to resume, in a general conference, the working out of mutually satisfactory arrangements relating to public investment and social welfare."

It should, perhaps, be recalled that what is proposed in the budget is merely an interim tax agreement. My colleagues and I stand prepared, at any time during the currency of such agreements as may be reached, to continue to seek an agreement on any aspect of Dominion-Provincial relations. In so far as the conclusion of an interim agreement is concerned, we feel that the present procedure is the only one now likely to be productive of early and positive agreements.

May I add, in conclusion, that I agree wholeheartedly with your statement that there should be "sufficient of the spirit of compromise and willingness to give and take" to make possible agreements in the field of Dominion-Provincial relations. I speak for all my colleagues when I give the assurance that the Dominion government is prepared, at all times, to give careful consideration to specific proposals on any aspect of Dominion-Provincial relations which any of the provinces may wish to discuss.

Yours sincerely,

W. L. MACKENZIE KING.

OFFICE OF THE PREMIER

ALBERTA

EDMONTON, January 13, 1947.

Honourable D. C. ABBOTT,
Minister of Finance,
Ottawa.

Dear Mr. ABBOTT:

My colleagues and I are giving consideration to our 1947-48 Budget in preparation for the forthcoming Session of the Provincial Legislature. The sources from which we will obtain a major portion of our revenue depend primarily on whether or not a mutually acceptable temporary tax Transfer Agreement can be worked out between our respective Governments.

In previous correspondence and in discussions with your predecessor and his officials we have expressed our dissatisfaction with various features of the Dominion Government's present Tax Transfer proposals. We have urged that the Dominion-Provincial Conference be reconvened in a further effort to arrive at a mutually acceptable arrangement between the Dominion and all of the Provinces. I may say that we still are of the opinion that this is the proper and

desirable procedure, particularly in view of the several important new factors which have become part of the problem under discussion since the last Conference adjourned.

We feel that several of these developments definitely have helped pave the way for a satisfactory settlement in the best interests of all concerned. Your announcement that the Dominion Government will vacate the field of gasoline tax as of March 31 next goes a considerable distance towards meeting the request of the Provinces that the Dominion vacate those fields of taxation which it entered as a war emergency measure. We do feel, however, that a similar undertaking should be given with respect to those other minor fields of taxation which come in this same category and which, while not of great import to the Dominion from a revenue standpoint, are of considerable importance to the Provinces. Furthermore, by vacating these other minor tax fields the Dominion would be taking a proper and practical step in keeping with its own announced desire to eliminate dual taxation.

Our one remaining concern in the matter of gasoline tax relates to the subsidy presently paid by the Dominion Government on imported crude oil. If the Dominion has any intention of removing this subsidy and permitting a corresponding increase in the consumer price of petroleum products, such increase insofar as this area of Canada is concerned would practically nullify all the benefit that otherwise will accrue to the Province as a result of the Dominion withdrawing from the field of gasoline tax.

With reference to the retirement of Alberta Treasury Bills held by the Dominion Government, while the settlement of this matter is not, in our opinion, in any way related to the proposed Tax Transfer Agreement I may say that the formula for the retirement of this indebtedness, proposed by your Department, is acceptable to the Government of Alberta and clears the way for a mutually satisfactory settlement with respect to the adjustment and retirement of our Treasury Bills at present held by the Dominion.

In the light of these circumstances we feel that it is likewise possible to overcome the remaining difficulties which must be disposed of before a mutually acceptable temporary agreement can be concluded. In this regard I would like to make brief reference to three matters which we consider of particular importance.

1. The question of the equal treatment of all Provinces.

Our attention has been drawn to recent newspaper reports to the effect that the Dominion is prepared to apply the gross national product factor of its proposals to those Provinces which already are assured a substantially higher per capita grant than the others by reason of the provision that no Province shall receive less than 150 per cent of what it received under its Wartime Tax Transfer Agreement. At the time of the last Dominion-Provincial Conference it was clearly understood that the gross national product factor would apply only to those Provinces which did not qualify for a basic per capita grant in excess of \$15 under the 150 per cent clause. This fact is borne out by the figures furnished the Conference by the Dominion Statisticians showing the varying amounts the different Provinces would receive as the gross national production fluctuated from year to year but showing the same amount in each year for those Provinces which qualified under the 150 per cent clause. I want to make it very clear that we have no objections whatever to Provinces qualifying under the 150 per cent clause receiving the additional advantage of the gross national product factor, providing an equivalent additional amount per capita is paid to those Provinces which are being asked to rent to the Dominion the same fields of taxation in return for \$15 per capita plus the gross national product factor.

We have assumed, and I trust rightly so, that the purpose of the so-called favoured nation clause in the proposed agreement was for the express purpose

of assuring that if any additional compensation was approved for one Province the other agreeing Provinces automatically would be entitled to an equivalent increase in the rental paid to them by the Dominion. We fail to see how the Dominion or the Provincial Governments could adopt any other position in fairness to the people whom they represent.

2. The question of preserving inviolate the Provinces' constitutional rights in those fields which they are asked to rent to the Dominion for the duration of the Agreement.

This is a matter of supreme importance in that the preservation of Provincial rights with respect to the power to tax and the incidence of taxation is fundamental to our Federal system of Government. While we feel that the Dominion Government has not attached sufficient importance to this important aspect of the proposed Agreement we do feel that it is possible to make certain adjustments in the present proposals to safeguard the constitutional rights of the Provinces without in any way detracting from the objective which it is desired to obtain.

3. The question of a permanent solution to the problem of Dominion-Provincial relations.

We feel it is recognized by all that the agreements at present under consideration will at the best be but temporary arrangements. We are convinced that the problem of Dominion-Provincial relations cannot be solved until there is a complete clarification and, if necessary, redefining of the rights and responsibilities of the Dominion and the Provincial Governments and until each of these Governments is assured adequate revenues under its own jurisdiction to discharge fully its constitutional responsibilities and provide adequately for the needs of its people. Obviously the proposed temporary agreement does not meet these requirements which we regard as fundamental to a satisfactory and permanent solution to this problem. We, therefore, feel it is most important that provision be made without delay for periodic conferences between the Dominion and Provincial Governments together with such other steps as may be necessary to ensure that in advance of the expiration of whatever temporary agreements are entered into this whole problem will be thoroughly analysed and a completely new arrangement worked out embodying those basic factors which obviously are essential to a permanent solution to this whole problem of Dominion-Provincial relations.

I have made tentative plans to be in Ottawa the week of January 20 and I would appreciate an opportunity to discuss these matters with you and your officials on that occasion. I expect to arrive in Ottawa on Wednesday morning, January 22, and would be glad to meet with you on that day or any time later in the week at your convenience. As I tentatively plan to leave Edmonton Sunday night, January 19, I would appreciate it very much if you would be good enough to advise me by wire if it would be convenient for you to meet me at the time suggested above.

Yours very truly,

ERNEST C. MANNING,

Premier.

PRESS STATEMENT

For release—afternoon papers, Saturday, January 25, 1947.

Honourable Douglas C. Abbott, Minister of Finance, made the following statement today:—

In view of the recent discussions which have been taking place with several provinces looking to the conclusion of taxation agreements, I think it important that I should now make a comprehensive statement outlining the present status of these negotiations.

It is desirable, in this connection, to recall the objectives underlying the original proposals in August 1945, which were the objectives in the budget proposals, and which are the objectives today. It was the Dominion Government's hope to see a foundation laid for co-operation between Dominion and provinces so that all governments would be in a position to act effectively to prevent a repetition of the calamitous days of the thirties. The Government's program was designed to achieve a high and stable level of employment and income. An essential and integral part of this program was the objective of putting all provincial governments in a position to discharge their responsibilities.

A basic feature in the proposals made by the Dominion in the August 1945 Conference was the exclusive occupation, for a fixed temporary period, of the income tax, corporation tax and succession duty fields. These taxes are imposed on incomes and wealth which have been earned throughout Canada but which are not readily taxable by all the provinces in which they have been earned. Tax agreements for this purpose are necessary to place the federal government in a position to carry out fiscal policies which will help to maintain a high and stable level of employment and income. They are also necessary to avoid the imposition of double taxation and the burden of conflicting tax policies. Finally, tax agreements are desirable in order to put both federal and provincial governments in a position to meet the challenge of possible post-war deflation and depression.

Under the B.N.A. Act both the Dominion and provincial governments have the constitutional right to impose income and corporation taxes and succession duties. To avoid taxation by both the Dominion and the provinces in these fields, the Dominion proposed to make an annual payment to the provincial governments which might be described as a rental from them of these fields. No constitutional change was suggested. What was proposed was a temporary arrangement under which the provincial governments would be compensated for not levying taxes in these fields. It is generally recognized that a somewhat similar arrangement under the Wartime Tax Agreements contributed substantially to the successful efforts of the Dominion in financing the war and in controlling inflation. At the same time, these agreements protected the revenues of provincial governments. The annual payments proposed by the Dominion were to increase in proportion to increases in national income and in provincial populations.

Apart from alterations in the proposed annual payments, two important changes have been made in the original Dominion proposals of August 1945. The Dominion has expressed its willingness to share the field of succession duties with any provincial government which desires to stay in that field. Owing to the failure to reach unanimous agreement at the Dominion-Provincial Conference, the Dominion offered to make individual agreements with provincial governments on terms set forth in the 1946 budget.

Heavy as are the continuing financial obligations of war, the Dominion Government is anxious to reduce taxes as rapidly as possible, including taxes on business costs and initiative. This can only be done with assurance if there are tax agreements with the provinces.

It is equally important that every provincial government should be in a financial position to discharge its responsibilities. The only practical and lasting basis for provincial autonomy is adequate financial provision for the many and important obligations of provincial and local governments.

Comparison of Conference Proposals and Budget Proposals:

The Dominion proposals made to the Dominion-Provincial Conference in August 1945 included not only proposals for tax agreements, but also co-operation in programs of social security and public investment. The proposed tax transfers and annual payments to the provinces were integral parts of an over-all approach.

Marked differences of opinion developed at the Conference. Early agreement was clearly not possible. In the circumstances the Dominion Government decided that progress could best be made by taking up the tax agreements first, and proceeding later to the public investment and social security programs. In the budget of June 27, 1946, the government accordingly made an offer for rental of the income and corporation tax and succession duty fields along the lines developed in the meetings of the Dominion-Provincial Conference. At the same time, the Dominion made provision in its 1946 tax program to honour its undertakings in the Wartime Tax Agreements. To this end, the rate of the corporation tax was reduced by 10 per cent, and the personal income tax was also reduced. The Dominion, moreover, went as far as seemed feasible to minimize the burden of double taxation on the taxpayers of these provinces which might not wish to conclude tax agreements.

Negotiations on basis of the Budget Proposals:

In the course of the negotiations with those provincial governments which indicated a willingness to accept in principle the Dominion proposals, special circumstances became apparent which justified some modifications of the original proposals.

Under the original budget proposals, every province was given the option of accepting as a minimum annual payment 150 per cent of its Wartime Tax Agreement receipts, instead of \$15 per capita based on its 1941 or 1942 population. As this option was more favourable than the \$15 per capita proposal to British Columbia, which prior to the war had been making more intensive use of the income and corporation tax fields than other provinces, it was naturally the basis preferred by that province. It was, however, strongly represented by British Columbia that, in view of its rapidly increasing population and industrial development, to be frozen at this minimum level probably for the duration of the agreement would be inequitable, and would make it impossible for the government to finance its necessarily expanding services. In view of these representations, British Columbia was offered an escalator clause by which the annual payments were to increase in proportion to increases in National income and in provincial population, as was provided for other provinces. This offer was conditional on the willingness of the three provinces which had already made tentative agreements with the Dominion to conclude agreements.

In addition to the special circumstances advanced by individual provinces there were representations at the Conference and since by many of the provinces that the Dominion should retire from the so-called minor tax fields. Since the 1946 budget, the Dominion's improved budgetary position has made it possible to announce the Dominion's withdrawal as from April 1 next from the most important of the minor tax fields, namely the gasoline tax. The Dominion remains willing, as proposed at the Conference and reiterated on several later occasions, to suspend in return for appropriate compensation taxation of amusements and pari mutuel bets.

Revised Dominion Proposals:

In the early negotiations a clause was inserted in the draft agreements with provincial governments providing that the terms offered any government in subsequent agreements would be made available to any other government which so desired. When the Dominion met the view of British Columbia by adding an escalator clause to the 150 per cent Wartime Tax Agreement option, the provinces which had already entered into negotiations maintained that, in spirit if not in letter, the terms of agreement had been altered, and that they were entitled to comparable consideration. The Dominion agreed that this view was reasonable. In an endeavour to meet as far as possible the special and varying circumstances of the provinces two additional options have been offered. These additional options have been discussed with and are satisfactory to the three provinces which had accepted the original budget proposals, and the terms of the new options have been communicated to all the other provinces.

The first of the new options involves, as rental for the three tax fields, annual payments by the Dominion, calculated as follows:

- (a) \$12.75 per capita of the 1942 population of the province, plus
- (b) 50 per cent of the provincial tax receipts from income and corporation taxes in 1940, as determined for purposes of the Wartime Tax Agreements, plus
- (c) statutory subsidies.

The total amount of these three items represents the irreducible guaranteed annual minimum payment. This payment is to be increased in accordance with increases in per capita gross national product and provincial population since 1942 on the same basis as previously proposed, including the use of a three-year average for purposes of calculation.

The second of the new options is offered to meet the case of those provinces which in 1940 were using the income and corporation tax fields only to a relatively small extent. It involves payment of \$15.00 per capita of the 1942 population of the province plus the statutory subsidies. This amount would be the guaranteed minimum and would, of course, be subject to the same escalator clause as the other option. Provision is made to meet the special circumstances of Prince Edward Island as was the case in the budget proposals.

In the event that all provinces conclude agreements with the Dominion, and that each takes the option most favourable to it, the guaranteed minimum annual payment to each province and the amount payable in 1947 as presently estimated would be as follows:

ESTIMATED PAYMENTS TO PROVINCIAL GOVERNMENTS
(\$000)

	1947 (As presently estimated)	Guaranteed Minimum
Prince Edward Island.....	2,285	2,100
Nova Scotia.....	12,134	10,870
New Brunswick.....	9,433	8,773
Quebec.....	63,011	56,383
Ontario.....	73,969	67,158
Manitoba.....	14,218	13,512
Saskatchewan.....	15,684	15,256
Alberta.....	14,840	13,986
British Columbia.....	21,353	18,120
	226,927	206,158

The revised proposal is designed:

- (a) to meet the fiscal needs of the less favoured provinces by the provision of a relatively large, uniform per capita payment;
- (b) to meet the representations of various provinces, by continuing the separate payment of the statutory subsidies; and
- (c) to meet the representations of the more favoured provinces by reflecting in the annual payments, the productivity of the major progressive taxes.

The general purposes and principles underlying the social security and public investment programme of the original proposals of August 1945 still remain the objectives of the Dominion Government. The substantially higher payments which the Dominion is now offering to the provinces will have to be taken into account in working out the details of these programmes. The increases in the direct payments offered to the provinces will require a corresponding adjustment in the division of costs originally proposed for the public investment and social security programmes.

The revised proposals have been framed after the most careful consideration of all provincial representations. They have been put forward by the Dominion Government in the hope that early agreement may now be possible between all the provinces and the Dominion.

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